

Drinking Water State Revolving Fund

Annual Report

2014



MISSOURI
Department of
Natural Resources

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I. Introduction

The State of Missouri is pleased to submit this Annual Report for the Missouri Department of Natural Resources' (Department) Drinking Water State Revolving Fund (SRF) for the 2014 reporting period. This report addresses operation of the Drinking Water SRF Program during the time period from July 1, 2013 through September 30, 2014. This report covers a 15 month period so that the reporting period will synchronize with the Intended Use Plan financial year.

The Department provides this report detailing the activities undertaken to reach the goals and objectives set forth in the Intended Use Plans developed for 2014. This report documents the status of the program by describing progress made toward long and short term program goals, the sources (e.g., federal grants) and uses of all funds (e.g. loans), financial status of the Drinking Water SRF, and compliance with Federal Drinking Water SRF requirements.

II. Executive Summary

This report addresses operation of the Drinking Water SRF Program during the time period from July 1, 2013 through September 30, 2014. This report covers a 15 month period so that the reporting period will synchronize with the Intended Use Plan year.

The State of Missouri's Drinking Water SRF Program has received a total of \$307,179,331 in Environmental Protection Agency (EPA) Capitalization Grants and Amendments through September 30, 2014. This amount does include an in-kind amount of \$1,444 on the FS997629-00 grant and the in-kind amount of \$100,000 on the FS997629-06, FS997629-08, and FS997629-11 grants. All of these amounts are not available to be drawn. During state fiscal year 2013, \$18,500,000 of Drinking Water SRF Capitalization Grant funds were transferred to the Clean Water SRF program. FS997629-07, FS997629-08, FS997629-09 and FS997629-10 Drinking Water SRF Capitalization Grants were amended to reflect this transfer of capitalization grant funds.

The Drinking Water SRF Program has contributed state match of \$47,037,066, which includes \$15,504,549 of state appropriations, \$24,447,276 of revenue bonds and \$7,085,241 of funds contributed through rural water grants. Since the inception of the program, the State of Missouri has made 73 leveraged loan commitments totaling \$250,735,000. In addition, the Department has made 49 direct loan commitments totaling \$83,770,200 and 37 grant commitments totaling \$32,509,820.

During this 15 month reporting period, no pooled leveraged loan closings occurred. Six direct loans totaling \$30,090,000 were closed during the reporting period. Four SRF grants totaling \$4,398,251 were awarded during the reporting period. (Refer to the table on page 5).

The next page has a list of all the Drinking Water SRF Capitalization Grant awards from the inception of the program through the 2014 reporting period.

Drinking Water SRF Capitalization Grants

Drinking Water SRF Federal Fiscal Year	Award Amount	Cumulative
1997	\$21,856,417	\$21,856,417
1998	\$9,572,970	\$31,429,387
1999	\$10,034,771	\$41,464,158
2000	\$10,429,700	\$51,893,858
2001	\$10,472,900	\$62,366,758
2002	\$11,702,600	\$74,069,358
2003	\$11,633,700	\$85,703,058
2004	\$12,066,800	\$97,769,858
2005	\$12,041,273	\$109,811,131
2006	\$15,978,200	\$125,789,331
2007*	\$15,978,000	\$141,767,331
2008*	\$15,816,000	\$157,583,331
2009*	\$15,816,000	\$173,399,331
2010*	\$26,234,000	\$199,633,331
ARRA	\$37,862,000	\$237,495,331
2011	\$18,204,000	\$255,699,331
2012	\$17,348,000	\$273,047,331
2013	\$16,277,000	\$289,324,331
2014	\$17,855,000	\$307,179,331

*The original grant amount is listed in this table. These grants were amended.

Below is a summary of Drinking Water SRF binding commitments. The cumulative total Drinking Water SRF binding commitment on September 30, 2014, is \$367,015,020. The Drinking Water SRF has never had a recipient default on their loan.

Binding Commitment Summary

Cumulative Binding Commitments	Amount
Leveraged Loans	\$250,735,000
Direct Loans (excludes Loan Paid w/LL)	\$83,770,200
ARRA Grants	\$18,948,152
SRF Grants	\$13,561,668
Total Binding Commitments	\$367,015,020

The Drinking Water Loan Revolving Fund, Fund 0602, was established to receive loan repayments, which are then used to make new loans. As of September 30, 2014, the Drinking Water Loan Revolving Fund had a balance of \$33,110,789. The Drinking Water SRF Capitalization Grant balance for Drinking Water SRF projects was \$36,656,588 as of September 30, 2014. The EPA Capitalization Grant balance related to the Drinking Water set-asides was \$13,336,323 as of September 30, 2014. The Drinking Water SRF Capitalization Grant Balance total is \$49,992,911.

III. Binding Commitments for 2014 Reporting Period

During the reporting period, Missouri chose to provide additional subsidization in the form of grants. Program funds were committed to eligible projects through a combination of up to 50 percent grant and the remaining portion as a loan with a maximum grant of \$2,000,000 per recipient. Disadvantaged communities were eligible for additional subsidization in an amount up to 75 percent of the project with a maximum grant of \$2,000,000 per recipient.

The Department entered into six direct loan commitments as well as four grant commitments totaling \$34,488,251 during the reporting period.

Drinking Water SRF Commitments During the 2014 Reporting Period

Recipient	Total Commitment Amount	Loan Commitment Amount	Grant Commitment Amount	Date	Project ID
City of Cameron	\$1,106,500	\$616,000	\$490,500	7/17/2013	DW291193-04
Jackson County PWSO #16	\$3,000,000	\$1,500,000	\$1,500,000	7/18/2013	DW291319-01
City of Monett	\$13,012,000	\$11,012,000	\$2,000,000	09/09/2013	DW291327-01
City of St Louis	\$9,500,000	\$9,500,000	\$0	11/13/2013	DW291280-12
City of Belton - Phase I	\$7,039,000	\$7,039,000	\$0	03/27/2014	DW291314-02
DeKalb County PWSO #1	\$830,751	\$423,000	\$407,751	8/26/2014	DW291341-01
2014 Total	\$34,488,251	\$30,090,000	\$4,398,251		

PWSO – Public Water Supply District

IV. Cumulative Binding Commitments

Exhibit 1 provides a listing of the binding commitments since the inception of the program. The cumulative total Drinking Water SRF binding commitments on September 30, 2014, is \$367,015,020.

Since the inception of the Drinking Water SRF program, 159 binding commitments have been made. Of the 159 binding commitments entered into, 73 were leveraged loans, 49 were direct loans and 37 were grants. Three interim direct loans, which are not included in the binding commitment totals, were repaid and replaced with a leveraged loan.

The innovative financing provided through the Drinking Water SRF program allows communities to save a considerable percentage of the interest cost of conventional loans. To date, Missouri's Drinking Water SRF Program has saved communities an estimated \$104,766,586 in lower interest compared to the higher interest rates of conventional financing. Additional subsidization through the Drinking Water SRF program has saved communities an estimated \$32,509,820 due to communities receiving grants.

V. Drinking Water SRF Applications and Loans Awarded

Below is a summary of the number of new and carryover Drinking Water SRF applications for the 2014 reporting period. This information was taken from the Intended Use Plan for Fiscal Year 2014.

Drinking Water SRF Applications	
Projects Accepted	2014 Reporting Period
Number of New Projects	17
Number of Carryover Projects	13
Total Number of Projects	30
Total Amount Requested of New Projects	\$134,997,163
Total Amount Requested of Carryover Projects	\$40,581,754
Total Amount Requested of Projects	\$175,578,917
Total Population Served for New Projects	285,555
Total Population Served for Carryover Projects	381,840
Total Population Served	667,395

The table below summarizes the number of projects approved, the amounts of the loans, grants and the total population served for those projects.

Drinking Water SRF Loan Projects Approved and Loans Awarded	
Projects Approved and Loans Awarded	2014 Reporting Period
Number of Projects Approved (Closed Loans)	6
Total Amount of Loans Closed	\$30,090,000
Total Amount of Grants Closed	\$4,398,251
Total Population Served	379,596

The following table shows the cumulative Drinking Water SRF leveraged loan closings since the beginning of the program.

Cumulative Drinking Water SRF Leveraged Loans				
Bond Pool	Number of Loans	Total Loan Amount	Average Subsidized Interest Rate + 0.5 Administrative Fee	Cumulative Amount
1998A	2	\$28,795,000	3.58%	\$28,795,000
1999A	1	\$2,315,000	3.57%	\$31,110,000
1999B	2	\$4,320,000	4.07%	\$35,430,000
2000A	6	\$20,490,000	4.01%	\$55,920,000
2000B	4	\$6,810,000	3.87%	\$62,730,000
2001A	4	\$6,295,000	3.43%	\$69,025,000
2001C	7	\$23,400,000	3.95%	\$92,425,000
2002A	4	\$10,370,000	2.93%	\$102,795,000
2002B	4	\$26,705,000	2.93%	\$129,500,000
2003B	4	\$11,445,000	2.68%	\$140,945,000
2003C	5	\$11,290,000	2.20%	\$152,235,000
2004B	2	\$3,605,000	2.13%	\$155,840,000
2004C	5	\$9,720,000	2.13%	\$165,560,000
2005A	3	\$28,105,000	2.27%	\$193,665,000
2005C	4	\$29,780,000	1.84%	\$223,445,000
2006A	3	\$2,000,000	2.05%	\$225,445,000
2006B	1	\$2,295,000	2.08%	\$227,740,000
2007A	6	\$11,805,000	1.83%	\$239,545,000
2007B	1	\$385,000	2.01%	\$239,930,000
2008A	5	\$10,805,000	2.13%	\$250,735,000

The table below summarizes the cumulative Drinking Water SRF direct loans since the program moved to the cash flow direct loans.

Cumulative Drinking Water SRF Cash Flow Direct Loans				
Period Ending	Number of Loans	Total Loan Amount	Average Subsidized Interest Rate + 0.5 Administrative Fee	Cumulative Amount
June 30, 2010	20	\$8,693,900	1.99%	\$8,693,900
June 30, 2011	5	\$2,692,900	2.37%	\$11,386,800
June 20, 2012	6	\$12,344,000	2.24%	\$23,730,800
June 30, 2013	9	\$7,153,600	2.08%	\$30,884,400
Sept. 30, 2014	6	\$30,090,000	2.03%	\$60,974,400

VI. Objectives and Goals of the Drinking Water State Revolving Fund

Each year the Department evaluates the operations and the financial structures of the SRF program to gauge program's effectiveness. Long- and short-term objectives and goals are proposed to improve program services and investment returns. An assessment of these goals is included in this report. The following sections present the current strategies for program improvements.

Long-Term Objectives and Goals

In order to meet the long-term objectives (3–5 years) of improving the Drinking Water SRF's operations and service to its clients, the Department developed the following goals:

- 1) Protect public health by ensuring that all Missouri citizens will have water that is always safe to drink;
- 2) Provide below market rate financial assistance while assuring the perpetual nature of the program;
- 3) Encourage systems to choose projects with the most cost effective solutions;
- 4) Explore ways to make the program more affordable/desirable to systems;
- 5) Ensure the long term viability of existing and proposed water systems;
- 6) Protect source water for drinking water systems;
- 7) To promote coordination of efforts both within and outside the agency for the purpose of expediting the funding of projects; and
- 8) Continue to implement and expand the Capacity Development Program.

Short-Term Objectives and Goals

In order to meet the short-term objectives (1–3 years) of improving the immediate operations and the availability of services to its clients, the Department developed the following goals:

- 1) Maximize the use and impact of available loan funds for eligible projects in accordance with the priorities and procedures described in this plan, utilizing sound financial management;
- 2) Conduct year by year financial analyses of the availability and use of funds. Evaluate the effects of different program structures on the ability to provide financial assistance now and in the future;

- 3) Continue to assist water systems in meeting Safe Drinking Water Act requirements;
- 4) Encourage projects to consolidate or interconnect in a regional manner which would reduce public health risks or make more efficient use of source water capacity and treatment processes;
- 5) Have the Drinking Water SRF priority point criteria and readiness to proceed criteria updated and approved by the Safe Drinking Water Commission at least 60 days prior to the initial application receipt deadline (Feb. 15, 2014); and
- 6) Continue to identify projects that qualify for Green Project Reserve (GPR) funding, in accordance with federal guidance.

VII. Progress Toward Achieving Objectives and Goals

This section of the Annual Report discusses the progress that has been made in meeting those long- and short-term objectives and goals for the period from July 1, 2013 to September 30, 2014.

Progress Toward Meeting the Long-Term Objective and Goals

The Department has developed the following long-term (3-5 years) goals with the objective of improving the Drinking Water SRF's operations and availability of services to its clients.

Goal 1: Protect public health by ensuring that all Missouri citizens will have water that is always safe to drink.

The Department continues to meet this objective by providing affordable financing to public water systems to fund improvements to drinking water infrastructure. These improvements allow public water systems to continue providing safe, clean and abundant drinking water to the citizens of Missouri. The Department has made a concerted effort to assist projects in moving towards funding. During the reporting period six projects entered into funding commitments.

The Department's Public Drinking Water Branch (PDWB) continues to provide oversight of all public water systems in the state to ensure compliance with the Safe Drinking Water Act. Missouri's community water systems consistently have higher compliance rates with health-based standards than the national average. PDWB uses set-aside funding to assist public water systems with compliance and public health issues by implementing and administering activities described in Section VIII of this report.

Goal 2: Provide below market rate financial assistance while assuring the perpetual nature of the program.

The "cash flow direct loan program" is functioning well. The Department continues to evaluate possible future program structures to ensure the program provides a stable source of funding for drinking water infrastructure projects well into the future.

Goal 3: Encourage systems to choose projects with the most cost effective solutions.

The Department coordinates with applicants throughout the process and thoroughly reviews the facility plans and scope of work for each project to ensure effective solutions are implemented.

Goal 4: Explore ways to make the loan program more affordable/desirable to systems.

The Department actively searches for new forums, venues and opportunities to discuss the program and market it to potential applicants. Staff is also doing more one-on-one work with applicants to facilitate the projects moving through the process. This process has been successful in reenergizing many projects that appear to become stalled.

Goal 5: Ensure the long-term viability of existing and proposed water systems.

The Department's priority point criteria awards points for projects that ensure long term system viability. This leads to the funding of these projects and progress towards accomplishing this goal. Staff evaluates each applicant's technical, managerial and financial capacity (TMF). As projects are developed, staff works with the applicants to ensure that TMF will be maintained.

Applicants are also encouraged to include more than one method of accomplishing the project's objective. Staff then works with the applicant to select the method which best addresses this and other goals.

PDWB uses set-side funding to develop, update, and implement Missouri's Capacity Development Strategy, which is a comprehensive plan for assisting all public water systems with their technical, managerial, and financial viability. PDWB evaluates the TMF capacity of new community and nontransient noncommunity systems to ensure they can provide safe and adequate drinking water over the long term.

Goal 6: Protect source water for drinking water systems.

The Department is actively involved with existing and future regional water systems. Each of these systems has protected long term sources of water. These systems are or will be located throughout the central, northern and southwestern portions of the state.

The Department's priority point criteria also awards points for these types of projects. This increases the probability of the projects receiving funding.

The Department uses set-asides to protect source water for public drinking water systems. Grants are made available to community water systems to develop source water protection plans, implement source water protection measures, and plug abandoned wells that pose a threat to the drinking water aquifer.

Goal 7: To promote coordination of efforts both within and outside the agency for the purpose of expediting the funding of projects.

Program staff has a collaborative working relationship with other Department staff as well as other state and federal agencies in an effort to expedite project development and to make the most efficient use of available funding from each agency. This takes place through the Missouri Water and Wastewater Review Committee, comprised of the Department of Natural Resources, the Missouri Department of Economic Development Community Development Block Grant Program, and the U.S. Department of Agriculture Rural Development Program. These relationships assist in maximizing the environmental and public health impact of the limited available funding.

Goal 8: Continue to implement and expand the Capacity Development Program.

The Department assists applicants on the review of their operations, financial stability, infrastructure needs, and to maintain or achieve compliance with Drinking Water Regulations.

PDWB uses set-side funding to develop, update, and implement Missouri's Capacity Development Strategy, which is a comprehensive plan for assisting all public water systems with their technical, managerial, and financial viability. PDWB evaluates the TMF capacity of new community and nontransient noncommunity systems to ensure they can provide safe and adequate drinking water over the long term.

Progress Toward Meeting the Short-Term Objectives and Goals

The Department developed the following short-term (1-3 years) objectives and goals with the objective of improving the Drinking Water SRF's immediate operations and the availability of services to its clients.

Goal 1: Maximize the use and impact of available loan funds for eligible projects in accordance with the priorities and procedures described in this plan, utilizing sound financial management.

Program staff continues to work with applicants to achieve readiness to proceed status. The incorporation of readiness to proceed criteria in the review process has enabled projects to proceed to loan closing in a timely manner, thus enabling the program to maximize the use of available funds.

Staff is also doing more one-on-one work with applicants to facilitate the projects moving through the process. This process has been successful in reenergizing projects that appeared to have been stalled.

Goal 2: Conduct year by year financial analyses of the availability and use of Drinking Water SRF funds. Evaluate the effects of different program structures on the ability of the Drinking Water SRF to provide financial assistance now and in the future.

The "cash flow loan program" is functioning well. The Department continues to evaluate possible future program structures to ensure the program provides a stable source of funding for drinking water infrastructure projects well into the future.

Goal 3: Continue to assist water systems in meeting Safe Drinking Water Act requirements.

As Safe Drinking Water Act requirements increase, staff works with systems to assure that projects will result in meeting or exceeding the requirements in an affordable manner. Financial Assistance Center staff coordinates with staff in the Public Drinking Water Branch to assure compliance. The Public Drinking Water Branch administers the Drinking Water SRF set-asides to provide technical and compliance assistance to public water systems.

Goal 4: Encourage projects to consolidate or interconnect in a regional manner which would reduce public health risks or make more efficient use of source water capacity and treatment processes.

The Department is actively involved with existing and future regional water systems. These systems are or will be located throughout the central, northern and southwestern portions of the state.

Department staff encourages interconnection when visiting systems that would benefit from it. The Department's priority point criteria also awards points for these types of projects. This increases the probability of the projects receiving funding.

Goal 5: Have the Drinking Water SRF Priority Point Criteria and Readiness to Proceed Criteria updated and approved by the Missouri Safe Drinking Water Commission at least 60 days prior to the initial application receipt deadline (Feb. 15, 2014).

This objective was accomplished on August 20, 2013.

Goal 6: Continue to identify projects that qualify for green project reserve funding in accordance with federal guidance.

The Department has met the requirements for the FFY2010 and FFY2011 Green Project Reserve (GPR). The Department will continue to report progress of GPR funding in the Public Drinking Water Benefits Reporting System. Refer to Section XIV, Green Project Reserve for details of the GPR requirements and projects that were identified to have GPR project components which were applied towards the GPR requirement.

VIII. Set-Aside Activities

When Congress established the Drinking Water SRF in 1996, it included special provisions called “set-asides” for the purpose of helping states better achieve the public health protection objectives of the Safe Drinking Water Act. The set-asides provide funding to enhance state public drinking water programs and assist systems with non-infrastructure needs.

The Safe Drinking Water Act establishes four categories of set-asides and set limits on the maximum percent of the capitalization grant. States are allowed to reserve up to 31 percent of each year’s capitalization grant for set-aside activities. The set-asides are administered by the Public Drinking Water Branch. Each of the set-asides and the related activities the Department has funded during the time period covered by this report are discussed below.

Administration and Technical Assistance

The Safe Drinking Water Act allows states to use up to 4 percent of each capitalization grant for administration of the programs established under Safe Drinking Water Act §1452 (Drinking Water SRF programs) and for technical assistance to public water systems of any size. The Department reserved the entire authorized 4 percent allowed for this set-aside and used it for costs of administering the loan program and providing technical assistance to public water systems through engineering report services grants. Any unused amounts of the set-asides authority will be reserved for future set-aside expenditures.

Costs associated with administering the Drinking Water SRF Loan Program included paying salaries and associated expenses of program personnel administering the loan fund. In the time period covered by this report staff used this set-aside to provide assistance to applicants and loan recipients, review projects, prioritize projects, issue loans, track repayments and perform project inspections. The Department also uses this set-aside to obtain all equipment and training needed for the adequate performance of Drinking Water SRF loan program staff.

The Department used this set-aside to provide technical assistance in the form of Engineering Report Services Grants to community water systems. For a full description of the Engineering Report Services Grant program, which is funded by three set-asides, please see the Local Assistance and Other State Programs, which is the primary funding source for these grants. The Small System Technical Assistance set-aside can be used only for assistance to systems serving a population of less than 10,000 persons, so Engineering Report Services Grants to larger systems were funded by this 4% administrative set-aside.

During the time period covered by this report the Department also provided grants to community water systems for development of engineering plans and specifications. For a full description of this grant program, which is funded by three set-asides, please see the Local Assistance and Other State Programs set-aside, which is the primary funding source for these grants.

Small System Technical Assistance

The Safe Drinking Water Act allows states to use up to 2 percent of each capitalization grant for technical assistance to public water systems serving 10,000 people or less. The Department reserved the entire authorized 2 percent of the capitalization grant for this set-aside and used it to provide grants to water systems for engineering reports and plans and specifications. Unused amounts of this set-aside authority will be reserved for future set-aside expenditures.

Engineering Report Services Grant

During the time period covered by this report the Department used this set-aside to provide grants to small communities to hire an engineer to develop an engineering report for the water system. The engineer performs a thorough evaluation of the system. This is a first step toward implementing changes that will help the system achieve and maintain technical, managerial and financial capacity, including compliance with the National Primary Drinking Water Regulations and the Missouri public drinking water regulations. Depending on the system's needs,

recommended changes may include restructuring, regionalization, operational changes, treatment changes, infrastructure improvements, or other technical, financial, or managerial improvements.

The Department has provided this assistance since 1999. The owners and operators of water systems recognize the need and value of an engineering review of their system but are often unable to afford the entire cost of obtaining the report. The Department funds up to 90 percent of the cost of the report. In the case of disadvantaged communities, the entire cost of the report may be funded.

Determination of award percentage is based on priority and risk factors including deductions for incomplete applications, insufficient supporting documentation, populations above 3,300, and high report development costs relative to system complexity and population served. Potential awardees are also screened for technical, managerial and financial capacity items such as having properly certified operators, possessing or on track to obtaining a Permit to Dispense Water, and payment of primacy or other required fees. Applicants with the greatest need based on priority points are selected for award.

Grant recipients must use a solicitation process to select an engineering firm. Upon proof of proper solicitation, the water system owner, the engineer, and the Department sign a Three-Party Payment Agreement. The engineer evaluates the system and produces a preliminary engineering report assessing improvements needed to ensure compliance with drinking water requirements and protection of public health. This may include infrastructure improvements, consolidation with another system, regionalization, restructuring or other means to ensure that the system provides safe drinking water.

Initially limited to very small communities (3,300 population or less), the Department has expanded this effort in recent years to include larger communities, and has also increased the amount of the grant awards. Systems that serve a population of 10,000 or greater and qualify for an Engineering Report Services Grant are funded from the 4% Administration and Technical Assistance or 15% Local Assistance and Other State Programs (LA/O) set-asides.

Solicitation for grants awarded during the time period covered by this report (July 1, 2013-September 30, 2014) was initiated on December 15, 2012, with a deadline of March 15, 2013 for submission of applications. The Department received applications from 102 community water systems. Contracts were awarded to 77 systems. The water system and the engineering firm have seven months from the date the contracts are signed to develop the engineering report and submit it for review and approval to the Department. Therefore, the deadlines for these reports are system-specific and range from April 24, 2014 to November 28, 2014. As of September 30, 2014 the Department had received engineering reports from 70 systems.

Engineering Report Services Grants FY 14 Solicitation	Number	Amount
Applications received	102	\$4,516,836.04
Systems awarded contracts	77	\$1,757,876.50

Plans and Specifications Grants

In a new initiative, the Department provided grants to community water systems serving populations of 10,000 or less for development of plans and specifications in order to help systems move more quickly toward being “shovel ready.” This is funded from three set-asides. The set-asides are 2% Small Systems Technical Assistance, 4% Administration and Technical Assistance, and 15% Local Assistance and Other State Programs), with the bulk of the funding coming from Local Assistance and Other State Programs.

The Department provides grants for up to 45% of the cost of engineering plans and specifications. Systems that apply and are eligible for a Drinking Water SRF loan may also qualify for an additional 45% grant. The department received applications from 59 water systems. Grants were awarded to 14 systems.

Public Water System Supervision Program Management

States can use up to 10 percent of each capitalization grant for the Public Water System Supervision (PWSS) program. The state must provide a one-to-one state match in order to use this set-aside. The Department uses the state primacy fee to provide an in-kind match for this requirement.

Congress established this set-aside in order to help states with the following programs:

- Implement and administer the PWSS (primacy) program;
- Provide technical assistance to public water systems through source water protection programs;
- Develop and implement a Capacity Development Strategy; and
- Develop and implement an operator certification program meeting federal requirements.

The Department reserved the entire 10 percent of this set-aside. The Department primarily uses this set-aside to support required primacy program activities but it is also used to fund staff and activities for operator certification, capacity development, and source water protection. Any unused amounts of the set-aside authority will be reserved for future set-aside expenditures.

Primacy Program

The set-aside provides funding critical for the administration, implementation and enforcement of public drinking water primacy requirement. The Department uses this set-aside for the following primacy-related activities:

- ♦ Support primacy program activities such as program administration, rule development, primacy applications, compliance and enforcement, inspections and sanitary surveys, information and data management, reports, record keeping and all other activities required of a primacy program;
- ♦ Develop and administer contracts for Safe Drinking Water Information System/State updates and maintenance for reporting to EPA;
- ♦ Develop and administer contracts for special monitoring needs such as *Cryptosporidium* in order to comply with federal rules;

- ◆ Develop and administer contracts to identify and evaluate impacts of emerging contaminants to help water systems prepare for new regulatory requirements;
- ◆ Develop and administer a contract for an improved permit tracking system called Safe Water Environmental Permit Tracking (SWEPT);
- ◆ Develop and administer a contract for an electronic sanitary survey tool called Safe Water Information Field Tool (SWIFT); and
- ◆ Contract for comprehensive performance evaluation training for state drinking water engineering staff.

Source Water Protection, Capacity Development, and Operator Certification

During the time period covered by this report the Department used this set-aside to fund staff implementing the Capacity Development Strategy, operator certification, and source water protection.

The Safe Drinking Water Act requires states to have and implement a strategy to assist all public water systems with achieving and maintaining technical, managerial and financial capacity or lose 20 percent of their annual Drinking Water SRF capitalization grant. Missouri has had an EPA approved Capacity Development Strategy since September 14, 2000. Public Drinking Water Branch updated and revised the Capacity Development Strategy in 2010 and continues to use this set-aside to fund staff to implement and refine capacity development goals and objectives. The Department uses the Local Assistance and Other Activities set-aside to implement activities identified in the Capacity Development Strategy.

The Safe Drinking Water Act also requires all states to develop and implement a drinking water operator certification program for community and non-transient non-community water systems that meets federal requirements or lose 20 percent of their annual Drinking Water SRF capitalization grant. Missouri has had an EPA-approved operator certification program since February 2002. The Department uses this set-aside to fund operator staff who administers all aspects of the operator certification program.

Participation in source water protection is voluntary on the part of public water systems. PDWB staff works with systems to encourage development of source water protection plans, review and approve plans, administer grant programs for plugging wells and implementation of source water protection measures, develop and provide source water protection informational materials, and serves as a resource for public water system staff and others.

Local Assistance and Other State Programs

The Safe Drinking Water Act allows states to set-aside up to 15 percent of the Drinking Water SRF capitalization grant for the following activities:

- ◆ Special loan programs for source water protection;
- ◆ Technical and financial assistance to public water systems as part of a Capacity Development Strategy; and

- ◆ Establish and implement a wellhead protection program under Section 1428 of the Safe Drinking Water Act.

For the period covered by this report, the Department set aside 15 percent from the capitalization grant to support capacity development and wellhead protection activities. The Department has not established source water protection loan programs.

Activities funded by the Department with this set-aside during the time period covered by this report include the following:

- Contracting for circuit riders to provide training and technical assistance to water systems;
- Contracting for training to water district board and city council members;
- Operator certification vouchers to water systems to pay operators' training and certification costs;
- Grants to community water systems for engineering report services;
- Grants to community water systems for development of plans and specifications;
- Grants to community water systems using ground water to plug abandoned wells that may threaten the aquifer;
- Grants to community water systems for source water protection;
- Development and distribution of source water and wellhead protection information;
- Contract with the University of Missouri for maintenance of public water system source water assessment and delineation information; and
- Studies to assist small community water systems with disinfection by-product compliance issues.

Circuit Riders

The Department used this set-aside to fund circuit riders to provide assistance to public water systems in the following areas: operator certification and training; leak detection, and technical and compliance assistance including capacity development. The Public Drinking Water Branch provides the circuit riders with a list of systems needing assistance with specific issues. The circuit riders provide system-specific assistance to those systems and small group training throughout the state.

Operator Certification

One of the circuit riders focuses primarily on providing training courses for certified operators or persons who want to become certified. This is the fourth year PDWB has funded this effort. Initially, PDWB had this circuit rider focus on systems that were required to have a certified operator but, for various reasons did not have one. This included providing pre-certification training courses to help operators prepare to take an operator certification examination. This approach proved very successful in bringing these systems into compliance with operator certification requirements. During the time period covered by this report, PDWB continued supporting this approach and has broadened the circuit rider's efforts to include operators of other small systems that are in need of training and other technical support.

The circuit rider provides multi-day training on water system treatment, distribution, small system needs, managing assets, and similar topics. Training courses offered during the time period covered by this report is listed in the following table. Persons may enroll for treatment only, distribution only, or both treatment and distribution. The attendance numbers reflect total attendance for any or all segments of the training.

TOPIC	DATE	LENGTH (DAYS)	ATTENDANCE
Drinking Water Treatment and Distribution	September 2013	10	11
Small Water System Operations	September 2013	1	34
Drinking Water Treatment and Distribution	February 2014	10	15
Water Distribution Certification	June 2014	10	21
Managing Water System Assets	July 2014	1	16
Managing Water Systems Assets	July 2014	1	10
Managing Water System Assets	August 2014	1	15
Managing Water System Assets	August 2014	1	30
Water Distribution Certification	September 2014	10	18



Precertification Training Course in Mt. Vernon



Point Lookout Pre-certification Training Course students at raw water low service pump station

Courses provided by the operator certification circuit rider during the time period covered by this report include pre-certification training for persons preparing to take the operator certification exams. Training is not required in Missouri prior to taking the exam. Many persons choosing to take the exam without training fail to pass. Eighty-five percent of participants in the pre-certification courses passed their certification exam on their first attempt.

The operator certification circuit rider also provided more than 115 training and technical assistance contacts on diverse, basic operational issues, such as chemical pump settings; dosage calculations; colorimeter residual testing for chlorine; chlorine; turbidity; disinfection byproduct reduction strategies; backwash; process control monitoring for improved operations; jar testing for determining effectiveness of different chemicals and doses; total coliform sampling;

transitioning from chloramines to free chlorine for 4-log virus inactivation; and membrane filter premature clogging.

Water Loss

Using state-of-the-art leak correlation equipment on loan from the Department, the circuit rider identified 73 leaks at 39 public water systems during the time period covered by this report.

At least 39% of the systems promptly repaired the leaks, resulting in a savings of approximately 534 million gallons per month and \$281,000 monthly savings in electrical and chemical costs that would otherwise have been incurred by production of this nonrevenue water. The cost estimate does not include such things as wear and tear on pumps, cost of equipment, labor, materials, and customer inconvenience. Additional systems may have repaired leaks later that were not reported.



Leak Correlator



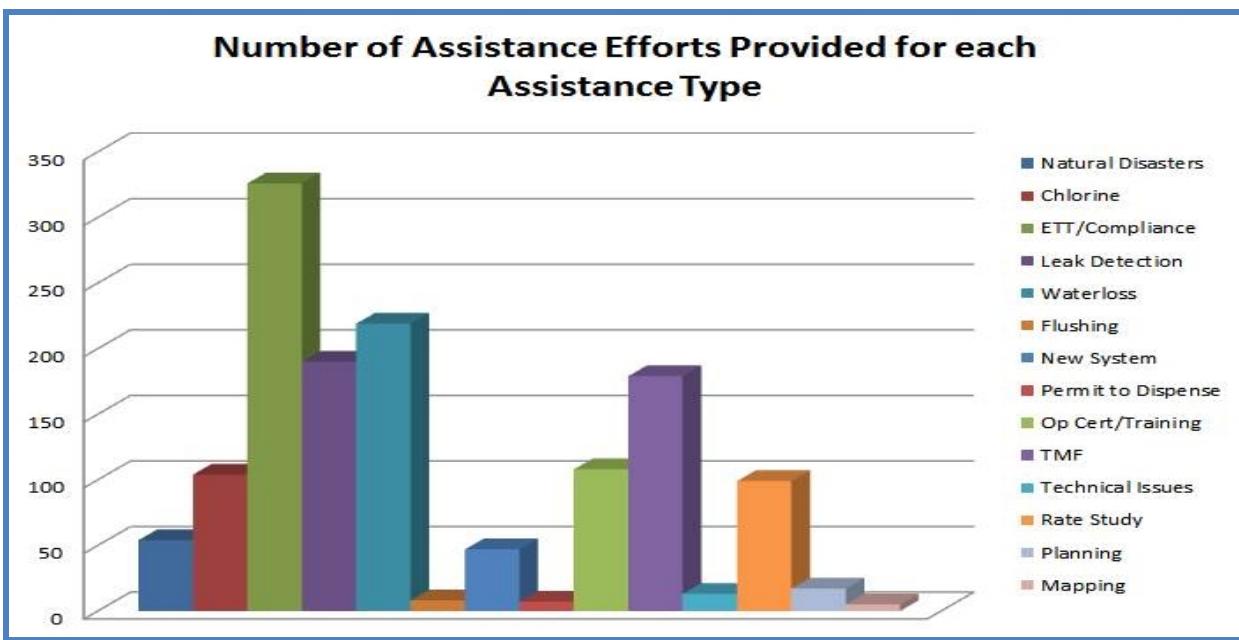
Unaccounted for water loss can be the result of faulty meters rather than leaky water mains. This photo shows meter testing for the purpose of checking for water loss.

Compliance and Technical Assistance

Circuit riders also provided assistance on compliance and technical, managerial and financial (TMF) capacity issues. PDWB focused these efforts primarily on new systems, systems with violations, and systems that have difficulty obtaining resources to achieve and maintain technical, managerial, and financial capacity.

Compliance and Technical Assistance

Circuit riders also provided assistance on compliance and TMF capacity issues. PDWB focused these efforts primarily on new systems, systems with violations, and systems that have difficulty obtaining resources to achieve and maintain technical, managerial, and financial capacity.



Two specialized areas where small systems needed help were Compliance Monitoring Plans (CMP) required by the Stage 2 Disinfectants and Disinfection By-product Rule (D/DBP) and chlorine residual monitoring. CMP compliance assistance efforts were focused on providing technical assistance to systems that had not completed or submitted a CMP with the necessary information to begin monitoring at specific locations in the distribution system. This assistance was provided to 140 small systems. With this assistance, 86 percent completed their CMP.

Circuit riders visited 52 small systems having chlorine residual monitoring issues. Thirty-two, or 61.50 percent, of the systems returned to compliance following technical assistance provided by circuit riders.

PDWB also used this set-aside to produce a seven-minute video to help community water systems prepare and deliver their consumer confidence reports using electronic delivery. The video is titled “Finding Your Electronic Consumer Confidence Report (eCCR) and The Direct Delivery Method of eCCR Distribution.” The video is available on the Missouri DNR channel of YouTube or can be accessed directly at www.youtube.com/watch?v=eMvi4O5HoFs. The video explains the CCR, where to find the online “skeleton” CCR generated for each water system by the Department and what must be done in order to make the CCR available to customers.

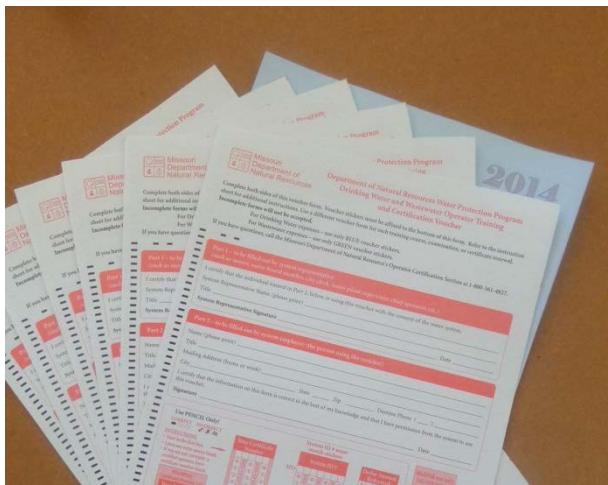
Board and Council Member Training

In state fiscal year 2014 the Department contracted with a training and technical assistance provider to provide workshops to water district board and city council members on the managerial and financial responsibilities of running a water system. Each workshop provided four hours of training. They were held on a weekday or on Saturday in various locations throughout the state. The



agenda included basic water system operations, water system legal ownership and accountability, laws, regulations, rate setting, and other business best practices.

Operator Certification Vouchers



Since 2012 a significant use of this set-aside has been drinking water operator certification and training vouchers. This set-aside replaced EPA's Expense Reimbursement Grant which had been funding the voucher program since 2004. The Department issues drinking water training vouchers annually to nearly 1,500 community and non-transient non-community water systems serving 3,300 people or less. The vouchers can be used to pay for operator certification fees and eligible drinking water training fees. The water system determines which of its personnel can use the vouchers. This gives the systems the flexibility to manage

the vouchers in a manner that will best meet their needs. Vouchers can be used for renewal training for existing operators or used for expenses related to a new person becoming certified.

Drinking water distribution systems receive \$625 and treatment systems receive \$950 in voucher funds. The amount of funds allocated to each system is determined by the system's classification (either Distribution or Treatment). A system's specific classification is based on several factors, including population, complexity of treatment, type of source water, and other factors. The system classification also determines the level of certification required for the chief operator.

In the time period covered by this report more than 1,000 certified operators representing 1,015 drinking water systems have used vouchers. Uncertified individuals also used vouchers for training in an effort to become certified. Processed vouchers totaled \$312,876 for the time period covered by this report. For state fiscal year 2014 the total expenditure is \$243,917, which is down slightly compared to \$258,595 that was processed in FY2013. The average monthly expenditure for vouchers is about \$20,000.

Engineering Report Services Grants

The Department provides assistance to community water systems needing engineering reports through Engineering Report Services Grants. The Department provides this funding as a grant to help community water systems obtain an engineering report as a first step toward implementing changes that will help the system achieve and maintain technical, managerial and financial capacity, including compliance with the National Primary Drinking Water Regulations and the Missouri public drinking water regulations. These grants are primarily funded by the 2% Technical Assistance Set-aside and are described under that set-aside. Systems that serve a population of 10,000 or greater and qualify for an Engineering Report Services Grant are funded from the 15% Local Assistance and Other State Programs (LA/O) or the 4% Administration and Technical Assistance set-aside.

Plans and Specifications Grants

In a new initiative in state fiscal year 2014, the Department provided grants to community water systems serving populations of 10,000 or less to hire an engineer to develop plans and specifications. This grant helps these small systems move more quickly toward being “shovel ready” for infrastructure improvements. This grant is funded from three set-asides, with the bulk of the funding coming from local assistance and other state programs (LA/O).

Grant recipients are initially eligible for up to 45% of the cost of the engineering plans and specifications. Those grant recipients who are eligible for a Drinking Water SRF loan and are placed on a fundable list may also qualify for an additional 45% grant, for a total of 90% of the cost being provided as a grant from the Department. Payment is made on a reimbursement basis. The Department received applications from 59 water systems. Grants were awarded to 14 systems, totaling \$2.3 million.

Wellhead and Source Water Protection

The Department continued funding four wellhead and source water protection activities with set-asides in the time period covered by this report.

In 2008 the Department began awarding grants to community water systems to plug abandoned drinking water wells that threaten or may threaten the water system’s source of supply. These wells provide a conduit for contaminants to enter groundwater. Groundwater sources supply water for about 85 percent of Missouri’s community water systems. Preventing contamination before it happens through proactive activities like plugging abandoned wells is more cost-effective than trying to clean up an aquifer after it has been contaminated or providing additional treatment at the system.

During the time period covered by this report, the Department assisted 14 ground water systems with plugging domestic and public wells and producing and distributing informational and educational materials designed to raise awareness of the dangers posed by abandoned water wells.

The Department initiated a source water protection grant program in 2006. The first grants were awarded in 2007. Grants awarded through this program may be for groundwater protection or surface water protection. Surface water protection awards are made as part of Capacity Development Strategy implementation. Awards made to ground water systems are part of wellhead program implementation. In the time period covered by this report, the Department awarded 12 grants to community water systems for projects that included security measures around wellhead sites (fencing, lights, cameras, etc.), development of source water protection plans, and implementation of source water protection measures.

The third wellhead and source water protection activity funded by this set-aside is the development and distribution of informational and educational materials. This includes revised application forms, Frequently Asked Questions, and a source water protection newsletter called “The Source Protector.” This bi-annual newsletter, first published in spring 2013, is targeted toward public water system operators, water supply district board members, municipal council

members, and other individuals or entities that have a stake in protecting and preserving drinking water sources in Missouri. The newsletter provides a medium for sharing information about general and specific aspects of source water protection, including highlighting successful case studies from around the state, and promoting source water protection grant opportunities.

The Department has continued its contract with the University of Missouri's Center for Applied Research and Environmental Systems (CARES) for maintenance of public water system source water assessment and delineation information. CARES maintains maps of Missouri public water systems, showing well locations, potential contamination sites, and other data. The maps and water system information is available to interested persons who know the water system's identification number. This information is used by public water system staff and the communities they serve as a foundation upon which they can develop and implement local, voluntary source water protection programs to protect the source of their drinking water. Department staff uses this information as a general reference with respect to water system facility locations and for other site-specific locational information.

Disinfection By-product Compliance Studies

The Department contracted with the University of Missouri in 2013 to research the causes of disinfection by-product formation at small community water systems with Stage 1 D/DBP compliance issues and recommend solutions. Achieving compliance is difficult for small systems because formation of disinfection by-products is complicated and specific to water chemistry and the treatment process. The study takes about two years to complete.

The study is a two-phase process of extensive testing and analysis and development of solution to disinfection by-product problems. The first phase of the project is a detailed evaluation of all aspects of the system's treatment process. This lasts approximately one year. University research staff provides recommendations to system staff based on the results of the evaluation. Water system staff reviews the recommendations and make a decision. In the second phase of the project, water system staff begins implementing the recommendations.

In the initial project, the Department assigned three small surface water systems to the University. All three of the systems achieved compliance with disinfection by-products during the second year of the study. In 2014 the Department assigned three additional noncompliant small systems to the University. Potential recommendations are currently being researched and evaluated for these systems.

Summary of Set-Aside Spending in FY14 and Ending Cash Balances

On February 2, 2013, the Department submitted a spending plan to EPA Region 7 to address projected use of set-aside balances. EPA accepted the plan in April of that year. The Department continues to implement and administer the activities identified in the spending plan and listed below. The table below provides ending balances and set-aside expenditures for state fiscal years 2012-2014 and the 15 month time period covered by this report (July 1, 2013 through September 30, 2014). Ending cash balances include additional capitalization grants as they are received and, therefore, may not necessarily decrease with a given fiscal year.

Set-aside Ending Cash Balances, June 30, 2012 through September 30, 2014					
Ending Cash Balances	Program Administration and Technical Assistance	State Program Management (Public Water System Supervision)	Small System Technical Assistance	Local Assistance and Other State Programs	Ending Cash Balances: All Set-Asides
FY12 Ending Cash Balances as of June 30, 2012	\$1,491,950	\$3,234,534	\$1,251,109	\$6,171,211	\$12,148,803
FY13 Ending Cash Balances as of June 30, 2013	\$1,485,966	\$3,545,442	\$839,138	\$5,367,025	\$11,237,570
FY14 Ending Cash Balances as of June 30, 2014	\$1,245,313	\$3,080,204	\$641,582	\$4,256,722	\$9,223,821
Ending Cash Balances as of September 30, 2014	\$1,578,004	\$4,342,595	\$803,065	\$6,044,689	\$12,768,353
Contracts, Grants and Other Project Funded by Set-asides, July 1, 2013 through September 30, 2014					
	Program Administration and Technical Assistance	State Program Management (Public Water System Supervision)	Small System Technical Assistance	Local Assistance and Other State Programs	Total
3-Party Engineering Contracts (Preliminary Engineering Reports)	\$352,914	\$0	\$601,475	\$471,804	\$1,426,193
3-Party Engineering Contracts (Plans & Specifications)	\$38,688	\$0	\$94,030	\$188,484	\$321,202
Grants to Water Systems a) Well plugging grants b) Source water protection	\$0	\$0	\$0	\$375,694	\$375,694
Technical Assistance to Water Systems (circuit riders)	\$0	\$0	\$0	\$412,360	\$412,360
Operator Certification Training Vouchers (PSD)	\$0	\$0	\$0	\$302,127	\$302,127
Operator Certification Training Voucher EE Costs	\$0	\$0	\$0	\$6,117	\$6,117
MO Science & Technology Contract	\$0	\$177,756	\$0	\$0	\$177,756
MO CARES Contract	\$0	\$0	\$0	\$28,600	\$28,600
GEC Contract	\$0	\$435,561	\$0	\$0	\$435,561
Safe Water Engineering Permit Tracker (maintenance)	\$0	\$4,300	\$0	\$0	\$4,300
Safe Water Information Field Tool (maintenance)	\$0	\$5,604	\$0	\$0	\$5,604
Disinfection By-Product Removal Study	\$0	\$0	\$0	\$130,249	\$130,249
Source Water Protection & Well Plugging materials	\$0	\$0	\$0	\$542	\$542
Increased Contractual TA (supplemental circuit rider)	\$0	\$0	\$0	\$15,660	\$15,660
Comprehensive Performance Evaluation Training for Staff	\$0	\$113,600	\$0	\$0	\$113,600

IX. Maintaining Drinking Water SRF Financial Assistance Programs

The Department operates a number of financial assistance programs for drinking water infrastructure.

Financial Assistance Programs

Direct Loans

The Drinking Water SRF Direct Loan Program is the primary financial tool used by the Department to fund public drinking water improvements. For the 2014 reporting period, the Department reserved 69 percent of the annual capitalization grant for direct loans and grants (grants are discussed in the next paragraph). The subsidy rate for all loans awarded during this reporting period was 70 percent of the market interest rate. In this reporting period, the Department awarded \$30,090,000 of direct loans to six different drinking water systems. These loans all have a 20 year term.

Grants

For federal fiscal year 2014, the Drinking Water SRF capitalization grant requires that not less than 20 percent or not more than 30 percent of the capitalization grant shall be used to provide additional subsidies. For this reporting period, the Department reserved 21.44 percent (\$3,828,073) of the capitalization grants for additional subsidies in the form of Drinking Water SRF grants. Drinking Water SRF grant funds were awarded to eligible, non-disadvantaged communities' projects through a combination of up to 50 percent grant and a direct loan for the remaining project amount, with a maximum grant of \$2 million per applicant. In this reporting period, the Department awarded \$4,398,251 of grants to four different drinking water systems.

Order of Priority for Distribution of Loan and Grant Funds

For this reporting period, the Department developed written criteria to prioritize the ranking of projects for loans and grants so that the most serious problems were given the highest priority. Consistent with the Federal Safe Drinking Water Act, priorities are based on protection of public health, compliance and household affordability. The Safe Drinking Water Commission approves the criteria after public review. Further, it continued to be the Department's intention to provide priority of financial assistance to communities that could not otherwise afford conventional financing. To meet this goal the Department used the following criteria listed in order of priority:

1. Projects serving disadvantaged communities on any fundable list based on priority ranking in the order of highest ranking;
2. Projects on the Very Small Community 20 percent Reserve Fundable List based on priority ranking;
3. Projects on the Small Community 15 percent Reserve Fundable List based on priority ranking; and

4. Projects on the General Community 65 percent Reserve Fundable List based on priority ranking.

Available capitalization grant funds, state match revenues, interest earned and grant funds for this reporting period were allocated to new projects according to priority ranking. Projects that had a priority ranking too low to be funded were placed on a contingency list.

Project Reviews

Drinking Water SRF Loans and Grants

The initial deadline date for receipt of new projects for Missouri's Drinking Water SRF Loan Program for 2014 was February 15, 2013. To maximize the use of available funds, late applications were accepted up to June 1, 2013. Solicitation was done through news releases and mailings to interested parties.

Initially, the Department reviewed all applications received to determine if the proposed project is an eligible activity and the applicant meets the financial requirements. Eligible projects were then priority ranked as described above and included in the state's Intended Use Plan. Those projects that are technically eligible but cannot meet the financial requirements of the SRF Loan Program are invited to participate in other state and federal loan and grant programs. Before loan closing, the Department will review the applicant's engineering documents, environmental documents, contracts and ordinances for compliance with state and federal requirements. The Department enters binding commitments and loan agreements after the applicants complete all requirements.

Section 640.107 of the Missouri Safe Drinking Water statute requires that eligible projects for Drinking Water SRF loans for systems serving less than 10,000 people shall be given priority consideration for no less than 35 percent of the available funds. The statute further states that eligible projects for loans for systems that serve 3,300 people or less are given priority consideration for at least 20 percent of the total available loan money.

The Department received its first Drinking Water SRF funds in federal fiscal year 1997. This included both the 1996 and 1997 capitalization grants, which were made available for applications received in state fiscal year 1998. The subsidy rate for Drinking Water SRF loans has changed over the years. The total available loan funds and the applicable subsidy rate for each year are listed on the next page:

State Fiscal Year	Total Available Funds for Loans (unleveraged) in Millions of Dollars	Subsidy Rate	Total Available Funds for Loans (leveraged) in Millions of Dollars
1998	\$9.7	33 1/3%	\$29
1999	\$10	33 1/3%	\$30
2000	\$52	33 1/3%	\$156
2001	\$52	33 1/3%	\$155
2002	\$52	50%	\$104
2003	\$36	50%	\$72
2004	\$44.8	70%	\$64
2005	\$28	70%	\$40
2006	\$21	70%	\$30
2007	\$21.1	70%	\$30.2
2008	\$27.9	70%	\$40
2009	\$44.5	70%	\$63.7
2010	\$95.9	70%	\$95.9 (not leveraged)
2011	\$50.7	70%	\$50.7 (not leveraged)
2012	\$70.6	70%	\$70.6 (not leveraged)
2013	\$124.1	70%	\$124.1 (not leveraged)
2014	\$101.8	70%	\$101.8 (not leveraged)

In this reporting period, the Department awarded six direct loans and four grants to six water systems for a total amount of \$34,488,251. Of the total amount for 2014, approximately 43 percent of the loan funds and 89 percent of the grant funds went to systems serving populations of less than 10,000.

As of the end of the 2014 reporting period, the Department has awarded a cumulative total of 122 drinking water loans and 37 grants to 102 different community public water supply systems for a total of \$367,015,020. Of the 159 loans and grants awarded, 93 loans and 32 grants were awarded to water systems serving populations of less than 10,000. These 125 loans and grants totaled \$164,289,520 or approximately 45 percent of the total. Therefore, the amount of loan funds awarded to systems serving less than 10,000 is above the minimum 35 percent required by the Missouri Safe Drinking Law, and well above the 15 percent minimum required by Federal Safe Drinking Water Act. Exhibit 1 summarizes the leveraged and direct loans awarded since the beginning of the program.

Each loan recipient is an eligible community water system. Projects included expenditures of a type that facilitate compliance with the Safe Drinking Water Act and advance the public health purposes of the Safe Drinking Water Act.

The following tables summarize the loans awarded in this reporting period, including the need category related to each project.

Drinking Water SRF Loans Awarded in the 2014 Reporting Period						
Water System	Amount Awarded	Project Categories				
		Source	Treatment	Storage	Transmission/ Distribution	Other
City of Cameron	Loan: \$616,000 Grant: \$490,500		X			
Jackson County PWSD #16	Loan: \$1,500,000 Grant: 1,500,000	X				
City of Monett	Loan: \$11,012,000 Grant: \$2,000,000		X	X	X	
City of St. Louis	Loan: \$9,500,000				X	
City of Belton	Loan: \$7,039,000			X	X	
DeKalb County PWSD #1	Loan: \$423,000 Grant: \$407,751			X		
Total for 2014	Loan: \$30,090,000 Grant: \$4,398,251					

The following tables provide a description of Drinking Water SRF projects awarded in this reporting period.

Drinking Water SRF Project Approved in the 2014 Reporting Period	
Water System Name Award Amounts \$	Project Description
City of Cameron \$1,106,500	The project addresses the need for improvements to the existing drinking water treatment plant to convert chlorine to chloramine disinfection to provide a more stable disinfection protection in the distribution system.
Jackson County Public Water Supply District #16 \$3,000,000	The project is for the addition of a new booster pump station and approximately 5,100 feet of 12 inch diameter transmission main and provides for distribution system improvements to allow the district to purchase water from the City of Independence, which has the capacity to meet the district's drinking water needs for the next 20 years.
City of Monett \$13,012,000	The project is for the construction of single stage treatment facility for Well No. 9 and Well No. 12 with treatment capacity of 1,800 gpm centrally located between the 2 wells, including distribution system improvements; installation of approximately 6,500 linear feet of 16 inch and 10 inch diameter water lines and addition of 1,000 gpm booster pump station at Well No. 12.
City of St. Louis \$9,500,000	The project is for Chain of Rocks Water treatment plant improvements to include: the replacement of the old raw water pumping unit with a new 25 mgd pumping unit; replacement of the old finished water pumping unit with a new 15 mgd pumping unit; and replacement of three 78 inch steel pipe segments, with two header vaults and plant service piping; Hall Street Manifold Chamber improvements include replacement of nine 48 inch valves and piping; replacement of existing software to model water quality issues; replacement of existing water mains with approximately 3,800 of six inch diameter water main; approximately 2,400 feet of eight inch diameter water main; approximately 2,400 feet of twelve inch diameter water main; and approximately 1,000 feet of twelve inch diameter water main; lining or replacement of approximately 3,000 feet of 20 inch diameter transmission mains; anode inspection and replacement on steel transmission mains; installation of a small bypass connection around valves that separates pressure zones; and the inspection and evaluation of valve operation with results to be included in a database.
City of Belton - Phase I \$7,039,000	The project is for the construction of an elevated 3,000,000 gallon storage tank and the sixteen inch mains connecting the new tank into the old distribution.
DeKalb County Public Water Supply District #1 \$830,751	The project is for the construction of a 150,000 gallon elevated water storage tank to replace the existing standpipe and installation of fencing and outdoor lighting as security measures.

X. EPA Recommendation on Performance Evaluation Report/Annual Program Review

Annual Program Review – 2013

Staff from EPA Region 7 conducted an on-site program evaluation of the state fiscal year 2013 SRF programs from June 10 to June 12, 2014. The program's final draft evaluation report included the following recommendations and observations:

1. With the exception of expeditious and timely use of funds, Missouri is in compliance with the rules and regulations of the SRF program.
2. EPA requests that Missouri provide an expenditure plan for set-aside ULO and for loan ULO in order to meet the provisions of April 14, 2014 Memo *DWSRF Unliquidated Obligations (ULO) Reduction Strategy*.
3. EPA recommends that Missouri utilize cash flow modeling. As Missouri is a cash flow program, this would be a management tool in making financial decisions.
4. EPA request that Missouri provide revised FFRs for the following grants: FS99762908, FS99762909, FS99762910 and 2F97708201. EPA asks that Missouri promptly provide the revised FFR for FS99762908 as EPA is required to close this grant no later than September 30, 2014.
5. Missouri agrees to provide additional detail in future annual reports for additional subsidy and green project reserve as noted above.

ARRA Review – 2013

Staff from EPA Region 7 conducted an on-site program evaluation of the ARRA SRF program from June 10 to June 12, 2014. The program final draft evaluation report included the following recommendation/conclusion:

1. With regard to cash draws, Missouri was found to be in compliance with ARRA requirements.
2. Consistent with the November 2013 *Annual Review Guidance ARRA Addendum*, EPA does not plan to conduct additional reviews in regard to the implementation of the ARRA program.

XI. Policy Summary

The Department has implemented regulations and policies to ensure the long term fiscal health of the Drinking Water SRF, attain and maintain compliance with the Safe Drinking Water Act and carry out other provisions of the law. The Department protects the financial health of the Drinking Water SRF by reviewing the creditworthiness of applicants, attaining proper surety and cross-collateralization.

- ◆ Water Protection Program's Financial Assistance Center and the Environmental Improvement and Energy Resources Authority review the creditworthiness of applicants to make sure they can safely meet their obligations in the loan program.
- ◆ As a form of surety, publicly-owned entities must offer revenue or general obligation bonds. Privately-owned entities may offer other appropriate forms of surety. To date, the Department has not entered into loan agreements with privately-owned systems.
- ◆ The Drinking Water SRF is cross-collateralized with the Clean Water SRF as authorized by federal (P.L. 105-66) and state law (section 644.122, RSMo).

The Department attains and maintains compliance with the Safe Drinking Water Act by setting priorities and reviewing projects.

- ◆ As previously addressed, priorities for projects funded through the loan program are approved annually by the Safe Drinking Water Commission after public review. The resulting criteria express priorities as a point system by which the Department ranks loan applicants. The Department awards points to projects that address Safe Drinking Water Act compliance, public health, affordability on a per household basis and security issues.
- ◆ The Department reviews all applicants for priority and creditworthiness before issuing its Intended Use Plan. Before loan closing, the Department will review the applicant's engineering documents, environmental documents, contracts, bond covenants and ordinances for compliance with state and federal requirements.

The Department's review achieves other purposes of the law by providing technical assistance and coordinating with other funding programs.

- ◆ The funding order of projects may not be identical to the fundable priority ranking in the annual Intended Use Plan. Readiness to proceed is an important factor; however, the general order of project ranking will be followed to the extent a project's sponsor is ready to proceed. The Department encourages projects to proceed in a timely manner.
- ◆ The Department, with approval of the Safe Drinking Water Commission, may by-pass any project on the fundable priority list that is not, in the opinion of the Department, making satisfactory progress toward satisfying requirements for Drinking Water SRF assistance. Rules governing by-pass procedures appear in 10 CSR 60-13.020(3)(A).

Any project on the fundable priority list may be by-passed if the applicant fails to submit the documents required for Drinking Water SRF assistance at least 60 days prior to the beginning of the quarter for which the assistance is anticipated. Furthermore, the Department may develop schedules to determine whether a Drinking Water SRF project is making satisfactory progress. A project may be by-passed for failure to meet the schedule.

A project that is by-passed will be removed from the fundable priority list, and if the application is still valid, will be placed on a project list, in priority order, for funding consideration in the next federal fiscal year.

- ◆ The Department uses authorized set-asides to fund staff that provides technical assistance related to Safe Drinking Water Act compliance and the technical, managerial and financial capacity of water systems.
- ◆ The Department coordinates with other agencies that fund water system improvements including the Missouri Department of Economic Development, which operates the Community Development Block Grants Program, U.S. Department of Agriculture Rural Development and the Department's state-funded grant program. The Department is continuing to try to address the needs of disadvantaged communities by supplementing Drinking Water SRF loans with other sources of funding, especially state grants.

XII. State Environmental Review Process

The Department has reviewed each project funded by a binding commitment during the report period according to the state environmental review process described in 10 CSR 60-13.030. It has issued a categorical exclusion or findings of no significant impact for each project.

XIII. State Match

In accordance with federal Safe Drinking Water statutes, states are required to provide a match equal to 20 percent of the total capitalization grant. Each state must deposit its match on or before the date of the grant payment. Further, it must make binding commitments equal to the grant minus set-asides plus match within one year of receiving the grant payment, except for the grant of federal fiscal year 1997. Through state fiscal year 2003, the Department used general revenue funds to provide the required 20 percent match.

Beginning in state fiscal year 2004, state match was provided through the proceeds of the sale of Environmental Improvement and Energy Resources Authority bonds. Environmental Improvement and Energy Resources Authority bonds are sold to generate 100 percent of the project costs and an appropriate percentage of those bonds are clearly identified as state match. The Department submitted to the EPA for approval an amendment to the Drinking Water SRF Operating Agreement (by and between the Department and the EPA), to allow the use of the state match bonds. The Department received approval for the change on October 28, 2003, and has continued to use this approach for provided state match in 2014.

In 2007 and 2002, the State of Missouri issued general obligations bonds for infrastructure projects to improve water quality throughout the state. These bonds totaled \$95 million of which a portion was allocated to the Rural Water Grant program. Of this total amount allocated to the rural water grants, the Department indicated its intent to use \$7,160,162 of these funds as state matching funds for public water systems receiving assistance through the Drinking Water SRF program. These funds were distributed for use as state matching funds to the DWSRF loan recipients. Ultimately the state distributed \$7,085,241 of these rural water grant funds for use as state match. These rural water grant accounts were closed upon expenditure of all funds. The Department requested and received approval from EPA Region 7 to apply the amount that was expended for rural water grants toward Drinking Water state match.

XIV. Details of Activities

Drinking Water SRF Regulations

The Department, through the Safe Drinking Water Commission, promulgated all necessary regulations for the Drinking Water SRF loan fund as of April 30, 1999. The rules were amended in 2001 and 2009 to include ARRA provisions.

2014 Binding Commitments

Exhibit 1 is a complete binding commitment list. The table below lists the projects that began construction during the 2014 reporting period.

2014 Project Construction Start Dates

Name	Project #	Construction Start Date	Award Amount
City of Cameron	DW291193-04	06/28/2013	\$1,106,500
Jackson County PWSD #16	DW291319-01	07/18/2013	\$3,000,000
Belton Phase I	DW291314-02	03/27/2014	\$7,039,000
City of Monett	DW291327-01	09/23/2013	\$13,012,000
City of St Louis	DW291280-12	01/21/2014	\$9,500,000
DeKalb County PWSD #1	DW291341-01	09/01/2014	\$830,751

Cash Draw Ratio (Proportionality)

Missouri used “cash flow” direct loans for the Drinking Water SRF program during the 2014 reporting period. The federal capitalization grant was not used as security for the state match bonds. In this reporting period, the state match funds were utilized first before drawing any federal funds from federal fiscal year 2012 capitalization grant. Once state match funds were utilized, the cash draws were 100 percent federal funds. With taking the state match funds into consideration, the cash draw ratio was 83.33 percent federal funds and 16.67 percent state match. This process followed EPA memorandum, Clarification of Cash Draw Rules for Leveraged SRF Programs (August 26, 2011).

Green Project Reserve

Staff continues to discuss the GPR requirements with SRF applicants and consulting engineers to encourage the utilization of GPR components in proposed projects. The costs associated with GPR components are being applied to the oldest capitalization grant first until such time as the GPR requirement for that grant has been satisfied. Below is the GPR capitalization grant requirement by federal fiscal year.

Federal Fiscal Year	GPR Requirement	GPR Awarded
2010	\$5,246,800	\$5,246,800
2011	\$3,640,800	\$3,640,800

The following projects were identified to have GPR project components and the associated costs which were applied towards the FFY 2010 capitalization grant GPR requirement.

Project #	Recipient Name	Loan Date	Loan Amount	GPR Amount	Water Efficiency
DW291228-01	Barry County PWSRD #2	06/22/2011	\$564,000	\$419,925	\$419,925
DW291234-01	City of Clarksburg	10/05/2011	\$748,000	\$458,762	\$458,762
DW291308-01	City of Neosho	12/19/2011	\$9,425,000	\$2,030,200	\$2,030,200
DW295258-01	City of Desloge	09/27/2012	\$1,564,000	\$1,564,000	\$1,564,000
DW291293-01	City of Warsaw	11/28/2012	\$1,478,000	\$773,913	\$773,913
	Total		\$13,779,000	\$5,246,800	\$5,246,800

The following projects were identified to have GPR project components and the associated costs which were applied towards the FFY 2011 capitalization grant GPR requirement.

Project #	Recipient Name	Loan Date	Loan Amount	GPR Amount	Water Efficiency
DW291293-01	City of Warsaw	11/28/2012	\$1,478,000	\$704,087	\$704,087
DW291322-01	Jefferson County PWSRD #8	11/29/2012	\$520,000	\$520,000	\$520,000
DW291162-04	City of Linn	01/30/2013	\$2,260,620	\$943,128	\$943,128
DW291324-01	Jefferson County PWSRD #12	05/22/2013	\$1,732,000	\$1,473,585	\$1,473,585
	Total		\$5,990,620	\$3,640,800	\$3,640,800

Additional Subsidy

The following table lists the additional subsidy requirements for each Drinking Water Capitalization Grant and the progress towards meeting the requirements.

Federal Fiscal Year	Amount	Awarded
2010	\$7,870,200	\$7,870,200
2011	\$5,461,200	\$5,461,200
2012	\$5,204,400	\$230,268
2013	\$4,883,100	\$0
2014	\$3,828,073	\$0

The table below lists the details of the projects who received additional subsidization towards the FFY10 Drinking Water Capitalization grant requirement.

Recipient	Amount Awarded	Award Date
Barry County PWSD #2	\$282,000	06/22/2011
Osage County PWSD #4	\$693,000	07/21/2011
Cass County PWSD #10	\$333,684	09/30/2011
City of Clarksburg	\$340,000	10/05/2011
Cass County PWSD #11	\$534,000	06/06/2012
Platte County PWSD #3	\$582,000	06/12/2012
City of Rogersville	\$559,113	08/24/2012
Jefferson County Water Authority	\$751,000	09/06/2012
City of Poplar Bluff	\$1,324,000	09/07/2012
City of Desloge	\$782,000	10/04/2012
Jefferson County PWSD #8	\$260,000	12/06/2012
City of Warsaw	\$739,000	12/20/2012
City of Linn	\$690,403	02/22/2013
Total	\$7,870,200	

The table below lists the details of the projects who received additional subsidization towards the FFY11 Drinking Water Capitalization grant requirement.

Recipient	Amount Awarded	Award Date
City of Linn	\$427,217	02/22/2013
Jefferson County PWSD #12	\$866,000	05/22/2013
City of Cameron	\$490,500	07/15/2013
Jackson County PWSD #16	\$1,500,000	08/15/2013
City of Monett	\$2,000,000	09/16/2013
DeKalb County PWSD #1	\$177,483	08/19/2014
Total	\$5,461,200	

The table below lists the details of the projects who received additional subsidization towards the FFY12 Drinking Water Capitalization grant requirement.

Recipient	Amount Awarded	Award Date
DeKalb County PWSD #1	\$230,268	08/19/2014
Total	\$230,268	

Assembled Necessary Staff

The Department has assembled the staff necessary to implement the Drinking Water SRF. The Drinking Water SRF administrative, financial and technical review staff for the Drinking Water Loan Program is primarily located in the Water Protection Program's Financial Assistance Center. Staff administering the programs and activities funded by the set-aside portion of the Drinking Water State Revolving Fund Capitalization Grants is primarily located in the Water Protection Program's Public Drinking Water Branch. The Water Protection Program coordinates with the Environmental Improvement and Energy Resources Authority, a state environmental financing agency, to implement the Direct Loan Loan Program. Staff in the Department's regional offices provides assistance with Drinking Water SRF and primacy-related field activities.

Coordination with Other Funding Programs

The Department coordinates with other agencies that fund water system improvements including the Missouri Department of Economic Development, which operates the Community Development Block Grant Program, the U.S. Department of Agriculture Rural Development Program, and the Department's state-funded grant program. The Department tries to address the needs of disadvantaged communities by supplementing Drinking Water SRF loans with other sources of funding, especially state grants.

Grant Conditions Compliance

The Department continues to comply with all grant conditions. The following sections address specific compliance issues.

- ◆ **Lobbying.** Lobbying by grant recipients is restricted by Section 607(A) of P.L. 96-74 and by the Anti-Lobbying Act, Section 319 of P.L. 101-121. The Department has not engaged in illegal lobbying and has not used grant funds to support lobbying.
- ◆ **Debarment.** The Department has agreed to comply with EPA's policy on debarment and suspension under assistance, loan and benefit programs. The Department has not solicited subagreements from debarred or suspended parties and has included notice of this policy in solicitations as required.
- ◆ **Disadvantaged business enterprises.** The Department has agreed to comply with EPA's Program for Utilization of Small, Minority, and Women's Business Enterprises. It has agreed to negotiate fair share goals. The Department and all loan/grant recipients

have included in their bid documents the fair share goals, followed the six affirmative steps stated in 40 CFR 31.36(e) and 40 CFR 35.3145(d). The Department has submitted reports on disadvantaged business enterprise use as required based in the information provided from the loan recipients. MBE/WBE reports were submitted to EPA for the 2014 reporting period. The table below illustrates our status towards meeting the goals set for MBE/WBE.

Assistance Activity for SRF Loan Recipients 2014 Reporting Period		
	MBE	WBE
Construction	0	0
Equipment	0	0
Services	\$0	\$2,150
Supplies	\$661	\$392
Total	\$661	\$2,542
Percent	0.022%	0.084%
Goal	10.0%	5.0%

- ◆ **Drinking Water SRF and Public Drinking Water Benefits Reporting System.** The Department has agreed to submit an annual report on the state of the Drinking Water SRF Program. This report fulfills the requirement of the annual report. The Department has updated the Public Drinking Water Benefits Reporting System as required for each loan recipient.
- ◆ **Use of recycled paper.** The Department has agreed to submit required reports to EPA on recycled paper. This report is printed on recycled paper.
- ◆ **Indirect costs.** The Department has agreed to charge indirect costs in the year that they are expended and in accordance with the negotiated indirect cost agreement. The Department has complied with the agreement and charged indirect costs in the years they were expended.
- ◆ **Federal cross-cutters.** The Department has agreed to comply with all federal cross-cutters identified in Appendix A of the Drinking Water SRF Program Guidelines. While loan recipients do not always receive assistance directly from the capitalization grant, the Department has ensured, by conditions in the loan agreements, that cross-cutting authority apply to projects equating to at least the amount of the capitalization grants.

XV. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the financial activities for the Missouri Department of Natural Resources' (Department) Drinking Water State Revolving Fund (SRF) for the fiscal year ended September 30, 2014. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the Notes to the Financial Statements.

Financial Highlights

The assets of the program exceeded liabilities at the close of the most recent reporting period by \$178,629,133 (net position). Net position consists of federal capitalization grant contributions of \$184,867,496, state match contributions of \$15,504,549, transfers to the Clean Water SRF program of \$10,000,000, and a net loss of \$11,742,912 since the inception of the program. The net position of the program is all restricted. The program's enabling legislation and related regulations require that all money in the fund may be used only for purposes of the program.

Total assets decreased from \$346,681,606 at June 30, 2013 to \$335,348,650 at September 30, 2014. The assets of the enterprise funds decreased \$6,769,770 while the assets of the agency fund decreased \$4,563,186. Explanations for these changes are detailed in the Financial Analysis section.

Total liabilities decreased \$30,217,384. The majority of the decrease was from a decrease in bonds payable. Bonds payable decreased \$23,110,310 because the program has changed from primarily a leveraged loan program to a direct loan program, so no new bonds were issued during the year.

During the reporting period, the program's total net position increased \$18,536,120. Capital contributions from the Environmental Protection Agency (EPA) totaled \$22,956,090. The current year loss of \$4,419,970 is the result of the program making grant payments totaling \$6,992,313 during the reporting period. Excluding grant payments, the program had a net income of \$2,572,343.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department's Drinking Water SRF basic financial statements. The program's basic financial statements are comprised of two components: 1) proprietary and fiduciary fund financial statements, and 2) notes to the financial statements.

The proprietary and fiduciary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, a Statement of Cash Flows and a Statement of Fiduciary Net Position.

- The Statement of Net Position presents the assets, liabilities and net position of the program. Assets consist of cash and cash equivalents, investments, interest receivable

from loans and investments, administrative fees receivable, EPA set-aside grant funds receivable and loans receivable. Liabilities include accounts payable, deferred revenue, bonds payable and bond interest payable. Net position is the federal capitalization grant contributions, the state match contributions, and the excess earnings of the program's operations since inception.

- The Statement of Revenues, Expenses and Changes in Fund Net Position presents information showing how the program's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.
- The Statement of Cash Flows is provided to identify the sources and the uses of cash during the fiscal year and to demonstrate that the program has sufficient cash to meet its obligations.
- The Statement of Fiduciary Net Position provides information about the program's agency fund. The agency fund consists of the assets and liabilities related to the loan funds that are held at trustee banks on behalf of the loan participants.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the fund financial statements.

Financial Analysis

Loan Fund:

The following section displays the current and prior year financial statements of the loan fund and describes some of the major reasons for the changes.

<u>Loan Fund Net Position</u>			
	9/30/2014	6/30/2013	Percent Change
Current assets	\$ 57,133,092	\$ 55,597,514	3%
Non-current assets	265,064,078	274,396,279	(3%)
Total assets	322,197,170	329,993,793	(2%)
Current liabilities	15,268,604	18,277,895	(16%)
Non-current liabilities	138,604,270	161,103,264	(14%)
Total liabilities	153,872,874	179,381,159	(14%)
Change in accounting principal	(348,308)		(100%)
Net position	<u>\$ 167,975,988</u>	<u>\$ 150,612,634</u>	<u>12%</u>

The total net position of the loan fund increased 12 percent. This was mainly due to a decrease in loans receivable of \$15,194,502. Total liabilities decreased 14 percent because of a decrease in bonds payable of \$23,110,310.

Changes in Loan Fund Net Position

	9/30/2014	6/30/2013	Percent Change
Operating revenues	\$ 9,741,898	\$ 8,164,218	19%
Operating expenses	6,992,313	3,688,824	90%
Operating income	2,749,585	4,475,294	(39%)
Non-operating revenues (expenses)	14,962,077	(3,974,110)	(476%)
Increase in net position	17,711,662	501,284	3,433%
Net position, beginning of year	150,612,634	150,111,350	0%
Change in accounting principal	(348,308)		(100%)
Net position, end of year	<u>\$ 167,975,988</u>	<u>\$ 150,612,634</u>	12%

The net position of the loan fund increased \$17,363,354 in the 2014 reporting period. Part of the increase was attributable to an increase in the amount of capitalization grant revenue during this reporting period. The capitalization grant revenue was \$22,956,090 during the 2014 reporting period and the capitalization grant revenue was \$13,499,241 during state fiscal year 2013. This represents an increase of \$9,456,849.

Loan Fund Cash Flows

	9/30/2014	6/30/2013	Percent Change
Cash flows from operating activities	\$ 20,167,459	\$ 12,483,096	62%
Cash flows from noncapital financing activities	(10,743,242)	(17,251,050)	(38%)
Cash flows from investing activities	(6,983,195)	1,722,098	(506%)
Increase (decrease) in cash and cash equivalents	2,441,022	(3,045,856)	(180%)
Cash and cash equivalents, beginning of year	31,375,932	34,421,788	(9%)
Cash and cash equivalents, end of year	<u>\$ 33,816,954</u>	<u>\$ 31,375,932</u>	8%

A number of factors caused a significant change in the loan fund cash flow numbers between state fiscal year 2013 and this 2014 reporting period.

1. Repayments received on loans increased \$14,107,744.
2. Bonds issued increased \$38,367,131 as bonds were refunded during the 2014 reporting period.
3. Bond principal retired increased \$48,481,450 because there was a refunding in this reporting period (series 2013A) and none in state fiscal year 2013.

Administrative Fee Fund:

The following section displays the current and prior year financial statements of the administrative fee fund and describes some of the major reasons for the changes.

Administrative Fee Fund Net Position

	9/30/2014	6/30/2013	Percent Change
Current assets	\$ 10,653,145	\$ 9,480,379	12%
Non-current assets	0	0	0%
Total assets	<u>10,653,145</u>	<u>9,480,379</u>	<u>12%</u>
Current liabilities	0	0	0%
Non-current liabilities	0	0	0%
Total liabilities	<u>0</u>	<u>0</u>	<u>0%</u>
Net position	<u>\$ 10,653,145</u>	<u>\$ 9,480,379</u>	<u>12%</u>

The 12 percent increase in administrative fee fund net position is a result of administrative fee revenues and interest earnings that are not offset by any administrative expenses. Administrative costs are currently being paid from a portion of the EPA grants through the set-aside fund, so the administrative fee fund cash continues to build. This will ensure sufficient funding for administrative expenses should the set-aside grant funding decrease or ends.

Changes in Administrative Fee Fund Net Position

	9/30/2014	6/30/2013	Percent Change
Operating revenues	\$ 1,112,586	\$ 883,844	26%
Operating expenses	0	0	0%
Operating income	<u>1,112,586</u>	<u>833,844</u>	<u>26%</u>
Non-operating revenues (expenses)	<u>60,180</u>	<u>52,277</u>	<u>15%</u>
Increase in net position	<u>1,172,766</u>	<u>936,121</u>	<u>25%</u>
Net position, beginning of year	<u>9,480,379</u>	<u>8,544,258</u>	<u>11%</u>
Net position, end of year	<u><u>\$ 10,653,145</u></u>	<u><u>\$ 9,480,379</u></u>	<u><u>12%</u></u>

There was an increase of \$228,742 in administrative fee revenue due primarily to the fifteen month reporting period as compared to the twelve month reporting period in the previous report. As mentioned earlier, the net position continues to grow because administrative expenses are paid with set-aside capitalization grant funds. The accumulation of net position in the administrative fee fund is needed in order to ensure that there will be sufficient funds to cover administration costs should the set-aside grant funding decrease or ends.

Administrative Fee Fund Cash Flows

	9/30/2014	6/30/2013	Percent Change
Cash flows from operating activities	\$ 1,463,071	\$ 919,914	59%
Cash flows from noncapital financing activities	0	0	0%
Cash flows from investing activities	<u>59,927</u>	<u>55,502</u>	<u>8%</u>
Increase in cash and cash equivalents	<u>1,522,998</u>	<u>975,416</u>	<u>56%</u>
Cash and cash equivalents, beginning of year	<u>8,781,512</u>	<u>7,806,096</u>	<u>12%</u>
Cash and cash equivalents, end of year	<u><u>\$ 10,304,510</u></u>	<u><u>\$ 8,781,512</u></u>	<u><u>17%</u></u>

Administrative fee fund cash increased \$1,522,998 during the year as administrative fees and investment interest were received but no administrative expenses were paid from the fund.

Set-aside Fund:

The following section displays the current and prior year financial statements of the set-aside fund and describes some of the major reasons for the changes:

Set-Aside Fund Net Position

	9/30/2014	6/30/2013	Percent Change
Current assets	\$ 1,310,936	\$ 1,456,849	(10%)
Non-current assets	<u>41,604</u>	<u>41,604</u>	0%
Total assets	1,352,540	1,498,453	(10%)
Current liabilities	1,321,806	1,467,719	(10%)
Non-current liabilities	<u>30,734</u>	<u>30,734</u>	0%
Total liabilities	<u>1,352,540</u>	<u>1,498,453</u>	(10%)
Net position	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>0%</u></u>

The decrease in assets and liabilities of the set-aside fund reflects the increase in the amount of set-aside expenditures that have been reimbursed by draws from the EPA capitalization grants.

Changes in Set-Aside Fund Net Position

	9/30/2014	6/30/2013	Percent Change
Operating revenues	\$ 9,375,200	\$ 6,196,275	51%
Operating expenses	<u>9,375,200</u>	<u>6,196,275</u>	51%
Operating income	0	0	0%
Non-operating revenues (expenses)	0	0	0%
Increase in net position	0	0	0%
Net position, beginning of year	0	0	0%
Net position, end of year	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>0%</u></u>

There was a \$3,178,925 increase in operating revenues and operating expenses. Salaries and benefits expense increased \$1,093,270, indirect costs increased by \$385,948, and other administrative expenses increased \$1,677,497. These increases in operating expenses resulted in a corresponding increase in EPA operating grant revenue.

Set-aside cash flows:

The set-aside fund does not have a cash balance, as any cash paid out is offset by cash coming in, resulting in the yearly cash provided by operating activities of \$0.

Agency Fund:

The following section displays the current and prior year assets and liabilities of the agency fund:

Agency Fund Net Position

	9/30/2014	6/30/2013	Percent Change
Assets	\$ 1,145,795	\$ 5,708,981	(80%)
Liabilities	1,145,795	5,708,981	(80%)
Net position	<u>\$ 0</u>	<u>\$ 0</u>	<u>0%</u>

The agency fund assets and liabilities decreased 80 percent because the program is now funding new loans on a payment by payment basis instead of placing 100 percent of the loan funds at a trustee bank at the time of the loan closing. Therefore, new loans do not have money sitting in the construction loan funds at the trustee bank and older loans have continually shrinking construction loan fund balances as those projects get closer to completion.

SRF Binding Commitments

State Fiscal Years 1997 through 2014

Project Name	Population Served	Project Number	Amount	Closing Date
Funding Type: ARRA GRANT				
CAMERON**	2,950	DW291193-03G	\$1,390,500.00	10/22/2009
CLINTON COUNTY PWSD #3**	1,310	DW291227-01G	\$1,100,000.00	11/06/2009
AVA MUNICIPAL WATER SYSTEM**	3,021	DW291214-01G	\$1,445,400.00	11/10/2009
CLARENCE CANNON	42,000	DW291070-03G	\$2,000,000.00	11/17/2009
DREXEL**	1,115	DW291236-01G	\$2,000,000.00	11/17/2009
ROCKAWAY BEACH**	577	DW291230-01G	\$862,000.00	12/07/2009
MONROE COUNTY PWSD #2*	6,500	DW291213-01G	\$1,065,250.00	12/10/2009
ADRIAN*	4,420	DW291245-01G	\$473,800.00	12/21/2009
PILOT GROVE**	723	DW291232-01G	\$505,000.00	12/21/2009
WESTON**	1,631	DW291220-01G	\$2,033,300.00	12/21/2009
HARRY S TRUMAN PWSD #2*	6,000	DW291239-01G	\$1,172,000.00	12/22/2009
CAPE GIRARDEAU	36,472	DW291010-03G	\$1,000,000.00	12/28/2009
NEWBURG MUNICIPAL WATER SYSTEM**	474	DW291229-01G	\$162,200.00	12/29/2009
KING CITY**	1,500	DW291265-01G	\$597,300.00	12/30/2009
LINN CREEK**	280	DW291223-01G	\$916,100.00	01/08/2010
STE GENEVIEVE*	4,480	DW291281-01G	\$781,440.00	01/08/2010
CLAY COUNTY PWSD #8**	1,953	DW291235-01G	\$723,000.00	01/11/2010
COLE COUNTY PWSD #4**	1,100	DW291208-02G	\$324,000.00	01/15/2010
WARDSVILLE**	976	DW291218-01G	\$396,862.00	01/26/2010
	19		\$18,948,152.00	

Funding Type: ARRA LOAN

CAMERON**	2,950	DW291193-03L	\$1,390,500.00	11/02/2009
AVA MUNICIPAL WATER SYSTEM**	3,021	DW291214-01L	\$1,445,400.00	11/17/2009
CLARENCE CANNON	42,000	DW291070-03L	\$2,390,000.00	11/23/2009
DREXEL**	1,115	DW291236-01L	\$2,368,000.00	11/23/2009
CLINTON COUNTY PWSD #3**	1,310	DW291227-01L	\$1,100,000.00	11/25/2009
ROCKAWAY BEACH**	577	DW291230-01L	\$862,000.00	12/09/2009
MONROE COUNTY PWSD #2*	6,500	DW291213-01L	\$1,065,200.00	12/14/2009
PILOT GROVE**	723	DW291232-01L	\$505,000.00	12/23/2009
ADRIAN*	4,420	DW291245-01L	\$473,800.00	12/29/2009
HARRY S TRUMAN PWSD #2*	6,000	DW291239-01L	\$1,172,000.00	12/29/2009
WESTON**	1,631	DW291220-01L	\$2,033,400.00	12/29/2009
KING CITY**	1,500	DW291265-01L	\$199,100.00	01/06/2010
LINN CREEK**	280	DW291223-01L	\$305,300.00	01/12/2010
STE GENEVIEVE*	4,480	DW291281-01L	\$781,300.00	01/12/2010
CLAY COUNTY PWSD #8**	1,953	DW291235-01L	\$723,000.00	01/14/2010
CAPE GIRARDEAU	36,472	DW291010-03L	\$1,000,000.00	01/15/2010
NEWBURG MUNICIPAL WATER SYSTEM**	474	DW291229-01L	\$162,200.00	01/19/2010
COLE COUNTY PWSD #4**	1,100	DW291208-02L	\$324,000.00	01/21/2010
WARDSVILLE**	976	DW291218-01L	\$396,700.00	01/28/2010
	19		\$18,696,900.00	

Funding Type: DIRECT FORTY % MATCH LOAN SRF

GLASGOW, CITY OF**	1,263	DW291125-01	\$1,000,000.00	12/05/2002
MARSHFIELD, CITY OF*	5,720	DW291148-01	\$3,650,000.00	03/27/2003
TRI-COUNTY WATER AUTHORITY	19,000	DW291181-01	\$9,848,500.00	02/25/2005
	3		\$14,498,500.00	

Funding Type: DIRECT INTERIM LOAN SRF (Paid off by Leveraged Loan)

GLASGOW, CITY OF**	1,263	DW291125-01	(\$1,000,000.00)	04/09/2003
MARSHFIELD, CITY OF*	5,720	DW291148-01	(\$3,650,000.00)	11/20/2003
TRI-COUNTY WATER AUTHORITY	19,000	DW291181-01	(\$9,848,500.00)	05/19/2005
	(3)		(\$14,498,500.00)	

SRF Binding Commitments

State Fiscal Years 1997 through 2014

Project Name	Population Served	Project Number	Amount	Closing Date
Funding Type: DIRECT LOAN SRF				
ADRIAN, CITY OF*	4,420	DW291107-01	\$4,163,000.00	12/03/2007
SULLIVAN COUNTY PWSD #1*	4,340	DW291212-01	\$2,900,000.00	04/14/2009
PLATTE COUNTY PWSD #8**	1,101	DW291273-01	\$444,800.00	11/17/2009
	3		\$7,507,800.00	
Funding Type: LEVERAGED LOAN SRF				
CAMERON, CITY OF	11,000	DW291008-01	\$3,300,000.00	12/02/1998
CAPE GIRARDEAU, CITY OF	38,509	DW291010-01	\$25,495,000.00	12/02/1998
LOUISIANA, CITY OF*	4,000	DW291025-01	2,315,000.00	06/03/1999
MOSCOW MILLS-NEW ELEVATED WATER TANK **	2,600	DW291032-01	365,000.00	12/02/1999
RAY COUNTY PWSD #2	16,000	DW291034-01	3,955,000.00	12/02/1999
BOONVILLE, CITY OF*	7,095	DW291003-01	5,110,000.00	04/12/2000
CAMDEN COUNTY PWSD #2**	691	DW291007-01	700,000.00	04/12/2000
HALLSVILLE, CITY OF**	1,200	DW291053-01	825,000.00	04/12/2000
JACKSON DIST. SYSTEM IMPROVEMENTS 01*	9,256	DW291020-01	995,000.00	04/12/2000
MARCELINE, CITY OF **	2,645	DW291026-01	4,000,000.00	04/12/2000
PERRYVILLE, CITY OF*	6,993	DW291062-01	8,860,000.00	04/12/2000
CLARENCE CANNON WHOLESALE WC*	4,172	DW291070-01	4,015,000.00	11/21/2000
JACKSON DIST. SYSTEM IMPROVEMENTS 02*	9,256	DW291020-02	1,895,000.00	11/21/2000
SWEET SPRINGS**	1,620	DW291040-01	445,000.00	11/21/2000
UNIONVILLE, CITY OF **	1,989	DW291041-01	455,000.00	11/21/2000
OZARK, CITY OF*	9,159	DW291089-01	975,000.00	04/18/2001
RAY COUNTY PWSD #2	16,000	DW291117-01	790,000.00	04/18/2001
RICHMOND*	6,675	DW291071-01	3,525,000.00	04/18/2001
VERNON COUNTY PWSD #2**	1,100	DW291069-01	1,005,000.00	04/18/2001
BUTLER, CITY OF*	8,555	DW291046-01	5,000,000.00	11/20/2001
DUNKLIN COUNTY PWSD#3**	1,764	DW291110-01	335,000.00	11/20/2001
FESTUS, CITY OF	10,470	DW291051-01	1,885,000.00	11/20/2001
GARDEN CITY**	1,390	DW291073-01	730,000.00	11/20/2001
JEFFERSON COUNTY WATER AUTHORITY	10,470	DW291121-01	10,435,000.00	11/20/2001
KEARNEY, CITY OF*	4,300	DW291082-01	2,645,000.00	11/20/2001
TRI-COUNTY WATER AUTHORITY	19,000	DW291068-01	2,370,000.00	11/20/2001
CAMDEN COUNTY PWSD #2**	2,280	DW291122-01	430,000.00	05/08/2002
CLEVER, CITY OF**	811	DW291109-01	410,000.00	05/08/2002
CRYSTAL CITY*	4,247	DW291050-01	1,300,000.00	05/08/2002
JEFFERSON COUNTY WATER AUTHORITY	10,470	DW291121-02	8,230,000.00	05/08/2002
ELSBERRY TREATMENT UPGRADE**	1,896	DW291099-01	500,000.00	11/07/2002
LAWSON, CITY OF**	2,357	DW291127-01	1,080,000.00	11/07/2002
OSAGE BEACH, REFINANCING AND NEW PROJECT	15,000	DW291150-01	24,585,000.00	11/07/2002
PUXICO, CITY OF**	1,145	DW291134-01	540,000.00	11/07/2002
CARL JUNCTION DW IMPROVEMENTS**	2,188	DW291123-01	1,760,000.00	04/09/2003
GLASGOW, CITY OF**	1,263	DW291125-02	2,210,000.00	04/09/2003
JASPER COUNTY PWSD #1**	1,873	DW291131-01	1,400,000.00	04/09/2003
OSAGE BEACH, REFINANCING AND NEW PROJECT	15,000	DW291150-02	6,075,000.00	04/09/2003
BOWLING GREEN*	5,166	DW291165-01	3,160,000.00	11/20/2003
MARSHFIELD, CITY OF*	5,720	DW291148-02	6,310,000.00	11/20/2003
KNOB NOSTER WATER IMPROVEMENTS**	2,462	DW291139-01	1,000,000.00	11/20/2003
CASS-BATES #12**	1,800	DW291151-01	330,000.00	11/20/2003
GREEN CITY**	688	DW291164-01	490,000.00	11/20/2003
BROOKFIELD*	4,769	DW291178-01	3,055,000.00	05/28/2004
PINEVILLE**	768	DW291141-01	550,000.00	05/28/2004
KIRKSVILLE SOUTH PROJECT	16,988	DW291176-01	695,000.00	12/09/2004
MOBERLY	13,741	DW291158-01	5,100,000.00	12/09/2004
LIVINGSTON COUNTY PWSD #1**	1,240	DW291161-01	1,230,000.00	12/09/2004

SRF Binding Commitments

State Fiscal Years 1997 through 2014

		Population		Amount	Closing Date
Project Name	Served	Project Number			
ADAIR COUNTY PWSD #1*	7,989	DW291155-01		395,000.00	12/09/2004
PORTAGEVILLE*	3,600	DW291077-01		2,300,000.00	12/09/2004
FULTON, CITY OF	12,128	DW291124-01		4,500,000.00	05/19/2005
TRI-COUNTY WATER AUTHORITY	27,000	DW291181-02		23,000,000.00	05/19/2005
HUNTSVILLE**	1,600	DW291175-01		605,000.00	05/19/2005
CLARENCE CANNON WWC	42,000	DW291137-01		9,700,000.00	11/30/2005
KIRKSVILLE PHASE I	26,450	DW291183-01		1,805,000.00	11/30/2005
TRI-COUNTY WATER AUTHORITY	27,000	DW291181-03		17,625,000.00	11/30/2005
RUSSELLVILLE**	850	DW291172-01		650,000.00	11/30/2005
CLARENCE CANNON WWC	42,000	DW291137-02		590,000.00	04/27/2006
CAPE GIRARDEAU COUNTY PWSD #4**	692	DW291187-01		600,000.00	04/27/2006
SHELBY COUNTY PWSD #1**	1,205	DW291191-01		810,000.00	04/27/2006
CLAY COUNTY PWSD #3*	3,800	DW291196-01		2,295,000.00	11/16/2006
KIRKSVILLE PHASE II & DOWNTOWN	26,450	DW291184-01		3,500,000.00	05/01/2007
OSAGE BEACH*	4,100	DW291150-03		2,550,000.00	05/01/2007
RICHLAND**	1,805	DW291202-01		1,000,000.00	05/01/2007
SENECA**	2,135	DW291157-01		835,000.00	05/01/2007
IRONTON**	1,539	DW291145-01		2,500,000.00	05/01/2007
WASHBURN, CITY OF**	448	DW291171-01		1,420,000.00	05/01/2007
HAMILTON**	2,343	DW291207-01		385,000.00	11/15/2007
ASHLAND**	3,000	DW291043-02		1,240,000.00	10/30/2008
HOLCOMB**	840	DW291186-01		355,000.00	10/30/2008
POPLAR BLUFF, CITY OF	16,651	DW291204-01		6,195,000.00	10/30/2008
LIVINGSTON COUNTY PWSD #3**	2,210	DW291201-01		970,000.00	10/30/2008
COLE COUNTY PWSD #4**	1,100	DW291208-01		2,045,000.00	10/30/2008
	73			\$250,735,000.00	

Funding Type: SRF CASH FLOW DIRECT LOAN

CLARENCE CANNON	42,000	DW291070-04		5,285,000.00	06/24/2010
MEADVILLE**	457	DW291243-01		622,700.00	10/26/2010
ADRIAN*	4,420	DW291245-02		343,200.00	12/22/2010
CHILHOWEE**	329	DW291233-01		585,000.00	12/22/2010
STOCKTON, CITY OF**	2,016	DW291282-02		860,000.00	05/26/2011
BARRY COUNTY PWSD #2 (CRESTWOOD WEST)**	182	DW291228-01L		282,000.00	06/22/2011
OSAGE COUNTY PWSD #3**	1,350	DW291216-01L		693,000.00	07/21/2011
CASS COUNTY PWSD #10**	2,610	DW291249-02L		702,000.00	09/28/2011
CLARKSBURG**	390	DW291234-01L		408,000.00	10/05/2011
NEOSHO	10,505	DW291308-01		9,425,000.00	12/19/2011
CASS COUNTY PWSD #11**	2,560	DW291313-01L		534,000.00	05/14/2012
PLATTE COUNTY PWSD #3**	1,200	DW291315-01L		582,000.00	06/19/2012
JEFFERSON COUNTY WATER AUTHORITY	14,005	DW291310-01L		751,000.00	07/25/2012
POPLAR BLUFF	16,651	DW291204-02L		1,324,000.00	07/31/2012
ROGERSVILLE**	3,047	DW291276-01L		682,000.00	08/14/2012
DESLOGE*	5,105	DW291258-01L		782,000.00	09/27/2012
WARSAW**	2,075	DW291293-01L		739,000.00	11/28/2012
JEFFERSON CO. PWSD #8*	3,500	DW291322-01L		260,000.00	11/29/2012
LINN**	1,430	DW291162-04L		1,143,000.00	01/30/2013
JEFFERSON CO. PWSD #12**	3,000	DW291324-01L		866,000.00	05/22/2013
TIPTON**	3,262	DW291331-01		606,600.00	06/18/2013
CAMERON	14,000	DW291193-04		616,000.00	07/17/2013
JACKSON COUNTY PWSD #16	4,203	DW291319-01		1,500,000.00	07/18/2013
MONETT	8,835	DW291327-01		11,012,000.00	09/09/2013
ST. LOUIS	319,294	DW291280-12		9,500,000.00	11/13/2013
BELTON PHASE I	24,802	DW291314-02		7,039,000.00	03/27/2014
DEKALB COUNTY PWSD #1	8,320	DW291341-01		423,000.00	08/26/2014
	27			\$57,565,500.00	

SRF Binding Commitments

State Fiscal Years 1997 through 2014

Project Name	Population Served	Project Number	Amount	Closing Date
Funding Type: SRF GRANT				
BARRY COUNTY PWSD #2 (CRESTWOOD WEST)**	182	DW291228-01G	282,000.00	06/22/2011
OSAGE COUNTY PWSD #3**	1,350	DW291216-01G	693,000.00	07/21/2011
CASS COUNTY PWSD #10**	2,610	DW291249-02G	333,684.00	09/30/2011
CLARKSBURG**	390	DW291234-01G	340,000.00	10/05/2011
CASS COUNTY PWSD #11**	2,560	DW291313-01G	534,000.00	06/06/2012
PLATTE COUNTY PWSD #3**	1,200	DW291315-01G	582,000.00	06/12/2012
ROGERSVILLE**	3,047	DW291276-01G	559,113.00	08/24/2012
JEFFERSON COUNTY WATER AUTHORITY	14,005	DW291310-01G	751,000.00	09/06/2012
POPLAR BLUFF	16,651	DW291204-02G	1,324,000.00	09/07/2012
DESLOGE*	5,105	DW291258-01G	782,000.00	10/04/2012
JEFFERSON CO. PWSD #8*	3,500	DW291322-01G	260,000.00	12/06/2012
WARSAW**	2,075	DW291293-01G	739,000.00	12/20/2012
LINN**	1,430	DW291162-04G	1,117,620.00	02/22/2013
JEFFERSON CO. PWSD #12**	3,000	DW291324-01G	866,000.00	05/22/2013
CAMERON	14,000	DW291193-04	490,500.00	07/15/2013
JACKSON COUNTY PWSD #16	4,203	DW291319-01	1,500,000.00	08/15/2013
MONETT	8,835	DW291327-01	2,000,000.00	09/16/2013
DEKALB COUNTY PWSD #1	8,320	DW291341-01	407,751.00	08/19/2014
	18		13,561,668.00	
Total Binding Commitments				\$367,015,020.00

* Systems that serve <10,000 population

** Systems that serve 3,300 or less population

Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Statement of Net Position - Unaudited
September 30, 2014

Exhibit 2

	Loan Fund	Administrative Fee Fund	Set-Aside Fund	Total Enterprise Funds
Assets:				
Current assets:				
Cash and cash equivalents	\$ 33,816,954	\$ 10,304,510	\$ -	\$ 44,121,464
Restricted investments	493,393	-	-	493,393
Receivables:				
Loan interest	1,835,392	-	-	1,835,392
Investment interest	56,652	14,542	-	71,194
Administrative fees	-	334,093	-	334,093
Due from EPA	-	-	1,310,936	1,310,936
Other receivables	-	-	-	-
Current portion of loans receivable:				
Leveraged loans	11,720,000	-	-	11,720,000
Direct loans	2,865,839	-	-	2,865,839
Reserve loans	6,344,862	-	-	6,344,862
Total current assets	<u>57,133,092</u>	<u>10,653,145</u>	<u>1,310,936</u>	<u>69,097,173</u>
Non-current assets:				
Restricted investments	19,727,010	-	-	19,727,010
Bond issue costs	-	-	-	-
Loans receivable:				
Leveraged loans	119,915,000	-	-	119,915,000
Direct loans	55,058,134	-	-	55,058,134
Reserve loans	70,363,934	-	-	70,363,934
Capital assets	-	-	54,348	54,348
Less accumulated depreciation	-	-	(12,744)	(12,744)
Capital assets, net of accumulated depreciation	-	-	41,604	41,604
Total non-current assets	<u>265,064,078</u>	<u>-</u>	<u>-</u>	<u>265,064,078</u>
Total assets	<u>322,197,170</u>	<u>10,653,145</u>	<u>1,352,540</u>	<u>334,202,855</u>
Liabilities:				
Current liabilities:				
Accounts payable	-	-	615,281	615,281
Accrued salaries and benefits payable	-	-	127,684	127,684
Bond interest payable	1,782,439	-	-	1,782,439
Current portion of bonds payable	13,486,165	-	-	13,486,165
Current portion of deferred revenue	-	-	10,870	10,870
Due to State of Missouri	-	-	567,971	567,971
Total current liabilities	<u>15,268,604</u>	<u>-</u>	<u>1,321,806</u>	<u>16,590,410</u>
Non-current liabilities:				
Deferred revenue	-	-	30,734	30,734
Bonds payable, net of deferred amounts	138,604,270	-	-	138,604,270
Total non-current liabilities	<u>138,604,270</u>	<u>-</u>	<u>30,734</u>	<u>138,635,004</u>
Total liabilities	<u>153,872,874</u>	<u>-</u>	<u>1,352,540</u>	<u>155,225,414</u>
Net position:				
Change in accounting principal	(348,308)	-	-	(348,308)
Invested in capital assets	-	-	41,604	41,604
Restricted for loans and debt service	168,324,296	10,653,145	(41,604)	178,935,837
Total net position	<u>\$ 167,975,988</u>	<u>\$ 10,653,145</u>	<u>\$ -</u>	<u>\$ 178,629,133</u>

See accompanying notes to the financial statements.

Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Statement of Revenues, Expenses and Changes in Fund Net Position - Unaudited
Year Ended September 30, 2014

Exhibit 3

	Loan Fund	Administrative Fee Fund	Set-Aside Fund	Total Enterprise Funds
Operating revenues:				
Interest income on SRF loans	\$ 9,561,205	\$ -	\$ -	\$ 9,561,205
Administrative fees	- -	1,112,586	- -	1,112,586
EPA set-aside operating grants	- -	- -	9,375,200	9,375,200
Other	180,693	- -	- -	180,693
Total operating revenues	9,741,898	1,112,586	9,375,200	20,229,684
Operating expenses:				
Salaries and benefits	- -	- -	3,571,647	3,571,647
Travel	- -	- -	60,328	60,328
Other administrative expenses	- -	- -	4,393,858	4,393,858
Indirect costs	- -	- -	1,349,367	1,349,367
Depreciation expense	- -	- -	- -	- -
Grant payments	6,992,313	- -	- -	6,992,313
Other expenses	- -	- -	- -	- -
Total operating expenses	6,992,313	- -	9,375,200	16,367,513
Operating income	2,749,585	1,112,586	- -	3,862,171
Non-operating revenues (expenses):				
Environmental Protection Agency grants	22,956,090	- -	- -	22,956,090
Investment income	601,344	60,180	- -	661,524
Bond issue expense	(797,886)	- -	- -	(797,886)
Interest expense on bonds payable	(7,797,471)	- -	- -	(7,797,471)
Transfer to Clean Water Program	- -	- -	- -	- -
Total non-operating revenues (expenses)	14,962,077	60,180	- -	15,022,257
Increase in net position	17,711,662	1,172,766	- -	18,884,428
Net position, beginning of year as previously stated	150,612,634	9,480,379	- -	160,093,013
Change in accounting principal	(348,308)	- -	- -	(348,308)
Net position, beginning of year as restated	150,264,326	9,480,379	- -	159,744,705
Net position, end of year	\$ 167,975,988	\$ 10,653,145	\$ - -	\$ 178,629,133

See accompanying notes to the financial statements.

Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Statement of Cash Flows - Unaudited
Year Ended September 30, 2014

Exhibit 4

	Loan Fund	Administrative Fee Fund	Set-Aside Fund	Total Enterprise Funds
Cash flows from operating activities:				
Grant disbursements	\$ (6,992,313)	\$ -	\$ -	\$ (6,992,313)
Loan disbursements	(16,723,766)	-	-	(16,723,766)
Repayments received on loans	31,918,268	-	-	31,918,268
Interest received on loans	11,784,364	-	-	11,784,364
Administrative fees	-	1,463,071	-	1,463,071
EPA set-aside grant	-	-	9,521,112	9,521,112
Payments to employees	-	-	(3,547,056)	(3,547,056)
Other administrative payments	-	-	(5,503,081)	(5,503,081)
Other	180,906	-	(470,975)	(290,069)
Net cash provided by operating activities	<u>20,167,459</u>	<u>1,463,071</u>	<u>-</u>	<u>21,630,530</u>
Cash flows from noncapital financing activities:				
Bonds issued, including premium	38,367,131	-	-	38,367,131
Bond principal retired	(60,521,450)	-	-	(60,521,450)
Interest paid on bonds	(11,151,437)	-	-	(11,151,437)
Environmental Protection Agency grants	22,956,090	-	-	22,956,090
Bond issuance costs	(393,576)	-	-	(393,576)
Net cash used by noncapital financing activities	<u>(10,743,242)</u>	<u>-</u>	<u>-</u>	<u>(10,743,242)</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	-	-	-	-
Cash flows from investing activities:				
Proceeds from sales and investment maturities	1,695,751	-	-	1,695,751
Purchase of investments	(9,346,474)	-	-	(9,346,474)
Investment income	667,528	59,927	-	727,455
Net cash provided by investing activities	<u>(6,983,195)</u>	<u>59,927</u>	<u>-</u>	<u>(6,923,268)</u>
Increase (decrease) in cash and cash equivalents	2,441,022	1,522,998	-	3,964,020
Cash and cash equivalents, beginning of year	<u>31,375,932</u>	<u>8,781,512</u>	<u>-</u>	<u>40,157,444</u>
Cash and cash equivalents, end of year	<u>\$ 33,816,954</u>	<u>\$ 10,304,510</u>	<u>\$ -</u>	<u>\$ 44,121,464</u>
Reconciliation of net operating income to net cash provided by operating activities:				
Operating income	\$ 2,749,585	\$ 1,112,586	\$ -	\$ 3,862,171
Adjustments to reconcile net operating income to net cash provided by operations:				
Depreciation expense	-	-	-	-
Uncollectible accounts expense	-	-	-	-
Changes in assets and liabilities:				
Decrease in loan interest receivable	2,223,159	-	-	2,223,159
Decrease in loans receivable	15,194,502	-	-	15,194,502
(Increase) decrease in other receivables	213	350,485	145,912	496,610
Increase in payables	-	-	(145,912)	(145,912)
Net cash provided by operating activities	<u>\$ 20,167,459</u>	<u>\$ 1,463,071</u>	<u>\$ -</u>	<u>\$ 21,630,530</u>

See accompanying notes to the financial statements.

Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Statement of Fiduciary Net Position - Unaudited
September 30, 2014

Exhibit 5

	<u>Agency Fund</u>
Assets:	
Cash and cash equivalents	\$ 1,145,790
Investment interest receivable	5
Other receivables	-
Total assets	1,145,795
Liabilities:	
Project costs payable to communities	146,315
Interest subsidies payable to communities	6
Arbitrage rebate payable	10,982
Due to other governments	572,192
Other payables	416,300
Total liabilities	1,145,795
Net position	\$ -

See accompanying notes to the financial statements.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements – Unaudited**

NOTE 1: Summary of Significant Accounting Policies

Reporting Period

The fiscal year end for the Drinking Water State Revolving Fund has been changed to September 30. As a result of this change, these financial statements were prepared using a fifteen month period from July 1, 2013 through September 30, 2014.

Reporting Entity

The Missouri Department of Natural Resources (Department) Drinking Water State Revolving Fund (SRF) was established pursuant to the Safe Drinking Water Act (SDWA) Amendments of 1996. Section 1452 of this Act authorizes the Administrator of the U.S. Environmental Protection Agency (EPA) to establish a Drinking Water SRF Program to assist public water systems with financing the costs of infrastructure needed to achieve or maintain compliance with the SDWA requirements, to protect public health, and to allow states to carry out prevention programs.

The Drinking Water SRF was capitalized by the EPA through a series of grants starting in 1997. For most of the grants, states are required to provide an additional 20 percent of the federal capitalization grant as matching funds. As of September 30, 2014, Congress had authorized EPA to award \$307,179,331 in capitalization grants to the State of Missouri. The state is required to contribute \$53,863,466 in matching funds.

The program is administered by the Department, the Missouri Environmental Improvement and Energy Resources Authority (EIERA), and the Department's Safe Drinking Water Commission. The EIERA issues bonds or notes to finance qualified projects, and the Department receives the capitalization grants from the EPA. The program is comprised of four funds within the state and an agency fund that holds the construction loan funds. The state funds are:

- Water and Wastewater Loan Fund (fund 0649) – receives the federal capitalization grant funds and uses those funds to make grants and loans;
- Water and Wastewater Loan Revolving Fund (fund 0602) - receives loan repayments and uses those funds to make new loans;
- Administrative Fee Fund (fund 0568) - receives the loan fees charged to borrowers and can be used to pay administrative costs of the program; and
- Department of Natural Resources Federal Fund (fund 0140) - receives federal capitalization grant funds that fund set-aside activities.

The Agency Fund accounts for the monies held at trustee banks on behalf of the loan participants. This includes their unspent loan funds, as well as the rebate funds held for arbitrage payments.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements – Unaudited**

NOTE 1: Summary of Significant Accounting Policies - continued

The State of Missouri's statewide Comprehensive Annual Financial Report includes the Drinking Water SRF Program as a special revenue fund, which uses the modified accrual basis of accounting. Due to differences in reporting methods, there may be differences between the amounts reported in these financial statements and the Comprehensive Annual Financial Report.

One major difference between the amounts reported in these reports is that the agency fund is not included in the Comprehensive Annual Financial Report but is shown in these financial statements.

Program Operations

The program provides financing to participants using three main types of funding: leveraged and reserve loans, direct loans, and grants.

A. Leveraged and Reserve Loans

Prior to state fiscal year 2010, the program's main type of financing was through the use of leveraged and reserve loans. Missouri leverages federal and state matching funds by issuing revenue bonds to make loans to qualified communities and by using federal grant and state matching funds to create reserves for the loans. Interest earned on the reserves subsidizes loan interest rates and enhances the security of the loans, which are pledged to repay bond principal and interest. Borrowers, in essence, receive two loans from the SRF: a market-rate loan funded by the revenue bond proceeds that equals project construction costs, and a zero-rate loan funded by capitalization grants and state matching funds that funds the reserves for the bonds. Bond proceeds are deposited to the construction loan accounts, which are held by the trustee bank. As communities draw on these funds to pay construction costs, a percentage of that amount (33.33 percent for bonds issued prior to 2002, 50 percent for bonds issued from 2002-2003, and 70 percent for bonds issued after 2003) is transferred to a reserve account established for each borrower. For loans closed in state fiscal year 2009, the reserve accounts were funded at closing rather than as construction funds were released. Earnings in the reserve account reduce the borrower's net interest payments on the bonds, resulting in the subsidized, blended interest rate on the project loan.

Beginning with bond series 2003C, a portion of the revenue bonds sold to fund the leveraged loans are state match bonds that will be repaid with interest earnings on the loans. The state match bond proceeds are used to fund a portion of the construction loan account, while the reserve account is funded with federal grant and recycled funds.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements – Unaudited**

NOTE 1: Summary of Significant Accounting Policies - continued

B. Direct Loans

Direct loans that were closed on prior to state fiscal year 2010 were funded from the Water and Wastewater Loan Revolving Fund. Loan proceeds are deposited to the construction loan accounts, which are held by the trustee bank. As construction costs are incurred, funds are released from the trustee bank to the borrower. The borrower repays the loan by making monthly principal and interest payments to the trustee bank. On the debt service due dates, the trustee bank makes the debt service payment to the program.

During state fiscal year 2010, the program changed how it funds direct loans. Instead of funding the loan up front and holding the funds at a trustee bank, the loan is funded incrementally as construction costs are incurred and funds are requested by the loan recipient. These loans are funded with federal grant and/or recycled funds.

C. Grants

Missouri was awarded the American Recovery and Reinvestment Act (ARRA) capitalization grant during state fiscal year 2010. The terms and conditions of the ARRA capitalization grant required that not less than 50 percent of assistance provided be in the form of additional loan subsidies, such as principal forgiveness, negative interest loans or grants. Missouri chose to provide the required additional subsidization through grants. ARRA projects were funded through a combination of 50 percent grant and 50 percent loan with a maximum grant of \$2,000,000 per applicant. Disadvantaged communities were eligible for a 75 percent grant with a 25 percent direct loan. Grant payments were made directly to the recipient as construction costs were incurred.

Terms and conditions of the following capitalization grants require that additional subsidization in the form of principal forgiveness, negative interest rate loans, or grants be provided. Missouri has chosen to provide the additional subsidization through grants. The following table lists the ranges at which additional subsidization is required:

Federal Fiscal Year	Drinking Water Capitalization Grant	State Fiscal Year Awarded	Minimum	Maximum
2010	FS997629-10	2011		30.00 percent
2011	FS997629-11	2012		30.00 percent
2012	FS997629-12	2013	20.00 percent	30.00 percent
2013	FS997629-13	2014	20.00 percent	30.00 percent
2014	FS997629-14	2014	20.00 percent	30.00 percent

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements – Unaudited**

NOTE 1: Summary of Significant Accounting Policies - continued

Basis of Accounting

The financial statements include enterprise funds and a fiduciary fund. The loan, administrative fee and set-aside funds are presented as enterprise funds and the agency fund is presented as a fiduciary fund. All funds are maintained on the accrual basis. The enterprise funds are accounted for using the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded at the time the liabilities are incurred.

All assets and liabilities associated with the operations of the enterprise funds are included on the Statement of Net Position. The assets and liabilities of the agency fund are included on the Statement of Fiduciary Net Position.

Drinking Water SRF reports the following major funds:

Loan Fund. The loan fund provides financial assistance to municipalities, counties, political subdivisions and instrumentalities of the state. Funding for these loan programs is generated from federal capitalization grants, proceeds of revenue bonds issued to provide required state matching monies, proceeds of revenue bonds issued for the leveraged program, and recycled monies.

Administrative Fee Fund. This fund accounts for the administrative fees received on loans and the use of those fees to pay salaries and associated expenses of program personnel devoting time to the administration of the program. Currently, salaries and associated expenses of program personnel are being paid from the set-aside fund.

Set-Aside Fund. The set-aside fund provides monies to establish and implement programs with emphasis on preventing contamination problems through source-water protection and encouraging better system operations. The Drinking Water SRF Program allows states to reserve up to 31 percent of the capitalization grant to use towards Administration and Technical Assistance, Small System Technical Assistance, Public Water System Supervision Program Management and Local Assistance and Other State Programs. In 2014, the Department reserved 31 percent of the federal fiscal year 2013 and 2014 grants for set-aside activities.

In addition, the program reports the following fund type:

Agency Fund. This fund accounts for monies held on behalf of municipalities, counties, political subdivisions, and instrumentalities of the state. This fund includes the funds generated by the sale of the bonds, which are deposited with a trustee bank in the applicant's name and are used for SRF eligible activities.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements – Unaudited**

NOTE 1: Summary of Significant Accounting Policies - continued

Cash, Cash Equivalents and Investments

A. Enterprise Funds

All monies in the four state funds (funds 0140, 0568, 0602, and 0649) are required to be deposited with the Missouri State Treasurer's Office, which is responsible for maintaining these deposits in accordance with state law. The program considers all such deposits to be cash. Investment interest earnings on these deposits are received by the program periodically throughout the month.

According to state law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the program, as further discussed in Note 2. Consequently, management of the program does not have any control over the investment of the excess cash. The statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

Monies of the enterprise funds that are held at the trustee bank are invested in either money market mutual funds, guaranteed investment contracts (GIC), or state and local government series securities (SLGS) by the trustee bank. The money market mutual funds are considered to be cash or cash equivalents. The SLGS are longer term investments and are stated at fair value. The GIC's are stated at cost as they are not negotiable or transferable and are not affected by market fluctuations. The enterprise funds do not include monies held at trustee banks on behalf of the loan participants. Those monies are accounted for under the agency fund.

B. Agency Fund

The agency fund accounts for the monies held at trustee banks on behalf of the loan participants. This includes their unspent loan funds, as well as the rebate funds held for arbitrage payments. The program considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Operating Revenues and Expenses

Revenues and expenses as a result of providing loans and grants to participants are considered operating revenues and expenses. Operating revenues include interest earned on loans, administrative fee revenue, and operating grants. Operating expenses include grant payments, salaries, benefits, and other administrative expenses.

The non-operating revenues and expenses of the program are investment income, EPA capitalization grant revenues, transfers to the Clean Water Program, and bond related expenses.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements – Unaudited**

NOTE 1: Summary of Significant Accounting Policies - continued

Administrative Fees

The program charges an administrative fee to borrowers to fund administrative costs of operating the program. The program's administrative expenses are currently paid with grant set-aside funds instead of with funds from the administrative fee fund. During the reporting period ending September 30, 2014, \$1,463,071 was collected for administrative fees from borrowers and \$59,927 of investment interest was received. The cash balance of the administrative fee fund was \$10,304,510 as of September 30, 2014.

Bonds Payable

Bonds issued prior to 2010 are special limited obligations of EIERA, payable from borrower loan repayments and a reserve account established for each borrower in accordance with a master trust agreement. Interest expense is reported on the accrual basis. Due to the flow-through effect of the bonds and related receivables, bond discounts, premiums and issuance costs are not reported by the program since they represent the costs of the borrowers.

Borrowers make monthly payments to debt service repayment accounts, which also earn interest that further subsidizes the interest rates. On bond payment dates, transfers are made from the repayment accounts to the debt service funds to make the semi-annual interest payments and annual bond principal payments. Interest earnings on the construction loan accounts and reserve accounts are also transferred to the debt service funds on the bond payment dates. These interest earnings reduce the amount that is needed from the repayment accounts.

As outstanding bond principal is reduced, a proportional amount is released from the reserve account. The released amounts flow to the master trust unallocated fund, and, if there are no defaults, are transferred to the Water and Wastewater Loan Revolving Fund to be used to make new loans.

Bonds issued since 2010 are different than previous issues. There is no longer a direct link between the bonds and the loans. Any premium or cost of issuing the bonds is no longer passed on to the loan borrower. Therefore, those amounts are reported on the program's financial statements.

Pending Governmental Accounting Standards Boards Statements

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, was issued in March 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflow of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements – Unaudited**

NOTE 1: Summary of Significant Accounting Policies - continued

the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term “deferred” in financial statement presentations. In addition, debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred. The requirements of this Statement became effective for financial statements for periods beginning after December 15, 2012.

Accounting changes adopted to conform to the provisions of the Statement should be applied retroactively by restating financial statements, if practical, for all periods presented.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, was issued in June 2012. The objective of this statement is to improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and to enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. This statement enhances decision-usefulness and accountability through new note disclosures and required supplementary information. This statement also improves the consistency and transparency of the information reported by employers and governmental nonemployer contributing entities about pension transactions. Additionally, this statement improves the comparability of reported pension information through changes related to the attribution method used to determine serve cost and the total pension liability, requirements for immediate recognition in pension expense of certain items, and the establishment of standardized expense recognition periods for amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions. The provisions of this statement are effective for periods beginning after June 15, 2014.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements – Unaudited**

NOTE 2: Cash, Cash Equivalents and Investments

State Funds

All cash in the four state funds (funds 0140, 0568, 0602, and 0649) is required to be deposited with the State Treasurer, who is responsible for maintaining and investing the pooled cash balances in accordance with state laws. The Treasurer is required to maintain a mix of investments in order to allow funds to be withdrawn at any time to meet normal operating needs. The program's share of the investment income from the local government investment pool is based on the average daily balance for the period and is credited to the program periodically throughout the month.

The Treasurer has its own policies for custodial credit risk, interest rate risk, credit risk, concentration of credit risk and foreign currency risk. Details of the investments and risks can be obtained from the State Treasurer's Office.

All cash and investments in the local investment pool are stated at cost, which approximates fair value. The investments in the local government investment pool are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Trustee Bank Funds

All cash and investments held by trustee banks are invested in accordance with the trustee investment agreement and the bond indentures. Allowable investments include:

- Federal securities.
- Direct and general obligations of the State which are pledged by the full faith and credit of the State and are rated in either of the two highest rating categories.
- Deposits at banks, trust companies or savings and loan associations which are fully insured by FDIC.
- Federal funds, unsecured certificates of deposit, time deposits and banker acceptances (having maturities of not more than 365 days) of any bank and which are rated in the highest short term rating category.
- Unsecured promissory notes of any bank, trust company, national banking association or bank holding company equal to such institution's outstanding unsecured long term debt that is rated in the highest rating category.
- Tax exempt permitted investments.
- Any other investment agreement with a provider which is rated, or whose unsecured, long term obligations are rated at least "Aa2" or equivalent, or with a provider whose obligations are guaranteed by a guarantor which is rated, or whose unsecured, long term obligations are rated at least "Aa2" or equivalent.
- Commercial paper issued by domestic corporations rated in the second highest short term rating category.
- Shares in money market mutual funds rated in the highest applicable rating category.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements – Unaudited**

NOTE 2: Cash, Cash Equivalents and Investments - continued

Custodial credit risk. This is the risk that, in the event of the failure of the counterparty, the program will not be able to recover the value of its deposits or investments. Of the cash and cash equivalents held by the trustee banks, \$2 of deposits was exposed to a custodial credit risk because it was collateralized with securities held by the counterparty's trust department but not in the name of the program. The remaining \$11,036,325 of cash and cash equivalents is invested in money market mutual funds. The money market mutual funds and the guaranteed investment contracts are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The state and local government series securities are uninsured.

As of September 30, 2014, the agency fund and the loan fund had the following investments:

Investment Type	Fair Value	Investment Maturities		
		<1 Year	1-5 Years	>5 Years
State and Local Government				
Series Securities	\$7,422,297	\$447,193	\$883,178	\$6,091,926
Guaranteed Investment Contracts	3,532,271	46,200	3,486,071	0
Money Market Mutual Funds	11,036,325	11,036,325	0	0
	<u>\$21,990,893</u>	<u>\$11,529,718</u>	<u>\$4,369,249</u>	<u>\$6,091,926</u>

Interest rate risk. Interest rate risk is the risk that changes in interest rates may adversely affect the investment's fair value. The program does not have a policy to address interest rate risk.

Credit risk. The trustee banks are responsible for monitoring credit risk as it relates to the types of investments that can be made in accordance with the trustee investment agreement. The program has no investment policy that further limits its investment choices. As of September 30, 2014, the program's money market mutual funds are rated AAA by Standard and Poor's. The state and local government series securities and guaranteed investment contracts are unrated.

Concentration of credit risk. The program places no limit on the amount that may be invested with any one issuer. The percent of total investments held by each provider as of September 30, 2014 is as follows:

Investment Issuer	Fair Value	Percent of Total
Westdeutsche Landesbank Girozentrale	\$3,532,271	100%

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements – Unaudited**

NOTE 3: Loans Receivable

Loans receivable consist of three types: leveraged loans, reserve loans, and direct loans. Leveraged loans are funded by the sale of revenue bonds, the proceeds of which are deposited to a construction loan fund. Borrowers are loaned funds from the construction loan fund to pay for construction costs incurred. The terms of the loans mirror the terms of the bonds in order to provide the funds to pay bond interest and principal according to the terms of the bonds. In conjunction with the leveraged loan that funds construction, a reserve loan is made to provide an interest subsidy to the borrower and to provide security for bond principal and interest.

With direct loans, there is no bond sale directly related to the loan. The loans are funded directly from the federal capitalization grant or recycled monies.

The following details the three types of loans as of September 30, 2014:

<u>Loan Type</u>	<u>Loan Amount</u>	<u>Outstanding Balance</u>
	<u>Authorized</u>	
Leveraged Loans	\$250,735,000	\$131,635,000
Reserve Loans	133,403,148	76,708,796
Direct Loans	98,268,700	57,923,974
Totals	<u>\$482,406,848</u>	<u>\$266,267,770</u>
Less Current Maturities		20,925,975
Loans Receivable, Net of Current Portion		<u>\$245,341,795</u>

Loans receivable activity during the year ended September 30, 2014 is summarized as follows:

Type of Loan	6/30/2013		9/30/2014	
	Balance	Disbursements	Repayments	Balance
Direct Loans	\$44,279,467	\$16,723,766	\$(3,079,260)	\$57,923,974
Leveraged Loans	150,570,000	0	(18,935,000)	131,635,000
Reserve Loans	86,612,804	0	(9,904,008)	76,708,796
	<u>\$281,462,271</u>	<u>\$16,723,766</u>	<u>\$(31,918,268)</u>	<u>\$266,267,770</u>

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements – Unaudited**

NOTE 3: Loans Receivable - continued

Loan Maturities

The scheduled principal payments in subsequent years are as follows:

Year Ending Sept 30	Direct Loans	Leveraged Loans	Reserve Loans	Total
2015	\$2,865,839	\$11,720,000	\$6,344,862	\$20,930,701
2016	3,427,340	12,465,000	6,632,406	22,524,746
2017	3,779,500	12,825,000	6,809,373	23,413,873
2018	3,548,922	12,825,000	6,920,960	23,294,882
2019	3,496,600	13,295,000	7,213,514	24,005,114
2020-2024	18,555,100	53,540,000	32,160,904	104,256,004
2025-2029	16,652,371	14,965,000	10,626,777	42,244,148
2030-2034	5,598,302	0	0	5,598,302
Total	\$57,923,974	\$131,635,000	\$76,708,796	\$266,267,770

Loans to Major Local Agencies

As of September 30, 2014, the program had made leveraged loans to eight agencies that, in the aggregate, exceeded \$9,000,000. The outstanding balances of the leveraged and reserve loans for these agencies represent approximately 50 percent of the total loans receivable, as follows:

Borrower	Original Amount	Outstanding Balance	Reserve Balance
Tri-County Water Authority	\$42,995,000	\$27,975,000	\$20,220,571
Osage Beach	33,210,000	18,600,000	10,024,238
Cape Girardeau	27,495,000	828,800	0
Clarence Cannon WWC	23,980,000	15,116,600	5,515,197
Jefferson County Water Authority	20,167,000	12,853,300	5,066,298
Monett	13,012,000	5,805,288	0
St Louis	9,500,000	1,350,822	0
Neosho	9,425,000	8,955,143	0
Total	\$179,784,000	\$91,484,953	\$40,826,304

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements – Unaudited**

NOTE 4: Bonds Payable

The Missouri Drinking Water SRF Program issues revenue bonds to finance qualified projects and uses federal capitalization grants and state matching funds to provide reserves for the bonds. The bonds are issued by the EIERA and proceeds from the bond sales are deposited into the borrowers' accounts with the trustee bank. Bonds payable and loans receivable are recorded in the loan fund. Cash and project costs payable are recorded in the agency fund. As borrowers incur costs, funds are transferred from the construction loan fund to the borrower. At the same time, the program draws federal and state matching funds to establish the bond reserves. For bond series 2008A, the reserves were fully funded on the day of bond closing, rather than being funded incrementally as construction funds are released. Interest earned on the construction loan fund and the reserve fund subsidizes the interest on the borrower's loan. As borrowers repay the loans, the interest and principal serve as the source of funds to pay bond principal and interest.

Beginning with bond series 2003C, state match bonds were issued by the EIERA in addition to leveraged bonds. Proceeds from both the state match bonds and the leveraged bonds are deposited into the borrowers' accounts at the trustee bank. The reserves for the leveraged bonds are then funded by federal capitalization grants or recycled funds.

In state fiscal year 2011, revenue bond series 2010B was issued. Proceeds of this bond sale went to the recycled fund to provide additional funding for new loans.

This bond sale is different from previous bonds in that the 2010B bond was not sold to provide funding for a specific group of loans. It was to provide additional funding that can be used to fund any loan being funded with recycled monies. The principal and interest repayments on the program's direct loans have been pledged to make the principal and interest repayments on the bonds.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements – Unaudited**

NOTE 4: Bonds Payable - continued

As of September 30, 2014, 25 separate bond issues had been sold which totaled \$361,080,000. The individual series, outstanding balances, and principal due included:

Series	Amount Issued	Outstanding Balance	Current Portion	Effective Rate to Community
Revenue Bond Series 1998B interest of 3.45% to 5.25% due semi-annually, principal due annually to January 2019.	\$28,795,000	\$61,100	\$19,000	3.08
Revenue Bond Series 1999A interest of 3.625% to 5.25% due semi-annually, principal due annually to January 2017.	2,315,000	615,000	190,000	3.07
Revenue Bond Series 1999B interest of 4.125% to 5.75% due semi-annually, principal due annually to July 2020.	4,320,000	165,000	40,000	3.57
Revenue Bond Series 2000A interest of 4.6% to 5.75% due semi-annually, principal due annually to July 2020.	20,490,000	410,000	115,000	3.51
Revenue Bond Series 2000B interest of 4.5% to 5.625% due semi-annually, principal due annually to July 2021.	6,810,000	225,000	45,000	3.37
Revenue Bond Series 2001A interest of 4.0% to 5.0% due semi-annually, principal due annually to January 2022.	6,295,000	165,000	35,000	2.93
Revenue Bond Series 2001C interest of 3.0% to 5.375% due semi-annually, principal due annually to July 2023.	23,400,000	7,295,000	1,305,000	3.45

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements – Unaudited**

NOTE 4: Bonds Payable - continued

Series	Amount Issued	Outstanding Balance	Current Portion	Effective Rate to Community
Revenue Bond Series 2002A interest of 2.0% to 5.375% due semi-annually, principal due annually to January 2023.	\$10,370,000	\$690,000	\$120,000	2.43
Revenue Bond Series 2002B interest of 2.0% to 5.50% due semi-annually, principal due annually to July 2023.	26,705,000	1,295,000	255,000	2.43
Revenue Bond Series 2003B interest of 2.0% to 5.125% due semi-annually, principal due annually to January 2024.	11,445,000	820,000	120,000	2.18
Revenue Bond Series 2003C interest of 2.0% to 5.0% due semi-annually, principal due annually to July 2023.	11,290,000	1,030,000	675,000	1.70
2003C Leveraged Portion	9,795,000	600,000	590,000	
2003C State Match Portion	1,495,000	430,000	85,000	
Revenue Bond Series 2004A interest of 2.0% to 5.0% due semi-annually, principal due annually to July 2021. (Refunding Bonds)	17,325,000	11,495,000	1,780,000	n/a
Revenue Bond Series 2004B interest of 2.0% to 5.25% due semi-annually, principal due annually to January 2024.	3,605,000	2,710,000	110,000	1.63
2004B Leveraged Portion	2,950,000	2,430,000	70,000	
2004B State Match Portion	655,000	280,000	40,000	
Revenue Bond Series 2004C interest of 3.0% to 5.25% due semi-annually, principal due annually to January 2026.	9,720,000	2,080,000	115,000	1.63
2004C Leveraged Portion	7,865,000	1,360,000	0	
2004C State Match Portion	1,855,000	720,000	115,000	

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements – Unaudited**

NOTE 4: Bonds Payable - continued

Series	Amount Issued	Outstanding Balance	Current Portion	Effective Rate to Community
Revenue Bond Series 2005A interest of 3.0% to 5.0% due semi-annually, principal due annually to July 2025.	28,105,000	3,745,000	1,220,000	1.77
2005A Leveraged Portion	22,745,000	1,495,000	910,000	
2005A State Match Portion	5,360,000	2,250,000	310,000	
Revenue Bond Series 2005C interest of 3.25% to 5.25% due semi-annually, principal due annually to July 2026.	29,780,000	10,615,000	1,280,000	1.34
2005C Leveraged Portion	23,930,000	7,815,000	945,000	
2005C State Match Portion	5,850,000	2,800,000	335,000	
Revenue Bond Series 2006A interest of 3.6% to 5.25% due semi-annually, principal due annually to July 2026.	2,000,000	860,000	100,000	1.55
2006A Leveraged Portion	1,610,000	695,000	75,000	
2006A State Match Portion	390,000	165,000	25,000	
Revenue Bond Series 2006B interest of 4.0% to 5.0% due semi-annually, principal due annually to July 2027.	2,295,000	935,000	115,000	1.58
2006B Leveraged Portion	1,960,000	745,000	90,000	
2006B State Match Portion	335,000	190,000	25,000	
Revenue Bond Series 2007A interest of 4.0% to 4.75% due semi-annually, principal due annually to January 2028.	11,805,000	8,740,000	545,000	1.33
2007A Leveraged Portion	10,095,000	7,815,000	440,000	
2007A State Match Portion	1,710,000	925,000	105,000	
Revenue Bond Series 2007B interest of 4.0% to 5.0% due semi-annually, principal due annually to January 2026.	385,000	285,000	25,000	1.51

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements – Unaudited**

NOTE 4: Bonds Payable - continued

Series	Amount Issued	Outstanding Balance	Current Portion	Effective Rate to Community
Revenue Bond Series 2008A interest of 4.0% to 5.75% due semi-annually, principal due annually to January 2029.	\$10,805,000	\$8,655,000	\$480,000	1.63
2008A Leveraged Portion	9,255,000	7,650,000	380,000	
2008A State Match Portion	1,550,000	1,005,000	100,000	
Revenue Bond Series 2010A interest of 2.0% to 5.0% due semi-annually, principal due annually to January 2024. (Refunding Bonds)	35,920,000	28,915,000	3,500,000	n/a
Revenue Bond Series 2010B interest of 2.0% to 5.0% due semi-annually, principal due annually to July 2030.	12,605,000	10,775,000	620,000	n/a
2010B Leveraged Portion	7,860,000	7,275,000	245,000	
2010B State Match Portion	4,745,000	3,500,000	375,000	
Revenue Bond Series 2011A interest of 2.0% to 5.0% due semi-annually, principal due annually to January 2024. (Refunding Bonds)	10,480,000	10,300,000	420,000	n/a
Revenue Bond Series 2013A Interest of 2.0% to 5.0% due semi-annually, principal due annually to January 2027. (Refunding Bonds)	35,630,000	34,015,000	985,000	
Total Leveraged Bonds	\$338,750,000	\$134,631,100	\$12,699,000	
Total State Match Bonds	23,945,000	12,265,000	1,515,000	
Premium on Bonds		9,420,421		399,709
Deferred Amt. on Refundings		(4,226,085)		(185,882)
Total Revenue Bonds	<u>\$362,695,000</u>	<u>\$152,090,436</u>	<u>\$14,427,827</u>	

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements – Unaudited**

NOTE 4: Bonds Payable - continued

Bond activity during the year ended September 30, 2014 is summarized as follows:

	6/30/2013			9/30/2014
	Balance	Repayments	New Issues	Balance
Leveraged Program Bonds	\$156,737,550	\$(57,736,450)	\$35,630,000	\$134,631,100
State Match Bonds	15,050,000	(2,785,000)	0	12,265,000
Premium on Bonds	5,593,242	(1,762,678)	5,589,856	9,420,421
Deferred on Refunding	(2,180,047)	(2,046,038)	0	(4,226,085)
Total	<u>\$175,200,745</u>	<u>\$(64,330,166)</u>	<u>\$41,219,856</u>	<u>\$152,090,436</u>

The required annual payments, not including premium and deferred amounts, for all revenue bonds in subsequent fiscal years are as follows:

Leveraged Bonds

Year Ending Sept 30	Principal	Interest	Total
2015	\$12,699,000	\$6,449,531	\$19,148,531
2016	13,463,500	5,849,322	19,312,822
2017	14,000,000	5,204,466	19,204,466
2018	14,173,600	4,499,355	18,672,955
2019	10,770,000	3,853,233	14,623,233
2020-2024	51,915,000	11,010,771	62,925,771
2025-2029	17,020,000	1,788,470	18,808,470
2030-2031	590,000	24,962	614,962
Total	<u>\$134,631,100</u>	<u>\$38,680,110</u>	<u>\$173,311,210</u>

Match Bonds

Year Ending Sept 30	Principal	Interest	Total
2015	\$1,515,000	\$543,677	\$2,058,677
2016	1,445,000	486,925	1,931,925
2017	1,370,000	424,295	1,794,295
2018	1,285,000	364,119	1,649,119
2019	1,195,000	309,194	1,504,194
2020-2024	4,340,000	808,581	5,148,581
2025-2029	1,095,000	110,085	1,205,085
2030-2031	20,000	725	20,725
Total	<u>\$12,265,000</u>	<u>\$3,047,601</u>	<u>\$15,312,601</u>

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements – Unaudited**

NOTE 4: Bonds Payable - continued

Advance Refundings

Four separate refunding bond series (Series 2004A, 2010A, 2011A and 2013A) totaling \$99,085,000 have been issued to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in irrevocable trusts for the purpose of generating resources for future debt service payments of \$77,262,450 of revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Statement of Net Position. As of September 30, 2014, the amount of refunded bonds that had yet to be called totaled \$10,630,000.

NOTE 5: Arbitrage Rebate

In accordance with Internal Revenue Code Section 148(f) relating to arbitrage restrictions on tax-exempt bonds, an arbitrage rebate payable in the amount of \$10,982 has been recorded. This liability is cumulative for the Series 2004B bonds. The portion of this pending rebate of excess investment earnings that is attributable to each series is due no later than 60 days after each installment computation date. The next installment computation date for each this series is the earlier of January 1, 2014 or date the last Bond is paid.

NOTE 6: Net Position

The net position of the program is all restricted. The program's enabling legislation and related regulations require that all money in the fund be used only for purposes of the program.

The program is capitalized by grants from the EPA, authorized by Section 1452 of the Safe Drinking Water Act, and matching funds from the State of Missouri. As of September 30, 2014, the EPA has awarded capitalization grants totaling \$307,179,331 of which \$238,410,579 has been drawn. During 2013, \$18,500,000 of capitalization grant funds were transferred to the Clean Water SRF program, adjusting the total awarded by EPA to \$288,679,331. The adjusted award amount of \$288,679,331 includes the \$1,444 in-kind amount on the FS997629-00 grant and the \$100,000 in-kind amounts on the FS997629-06, FS997629-08 and FS997629-11 grants. These amounts are not available to be drawn.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements – Unaudited**

NOTE 6: Net Position - continued

The following summarizes the capitalization grants awarded, amounts drawn on each grant, and balances available:

Grant ID	Grant Amount	Total Draws		Total Draws Sept 30, 2014	Available Sept 30, 2014
		June 30, 2013	2014 Draws		
FS997629-97	\$21,856,417	\$21,856,417	\$0	\$21,856,417	\$0
FS997629-98	9,572,970	9,572,970	0	9,572,970	0
FS997629-99	10,034,771	10,034,771	0	10,034,771	0
FS997629-00	10,429,700	10,428,256	0	10,428,256	0
FS997629-01	10,472,900	10,472,900	0	10,472,900	0
FS997629-02	11,702,600	11,702,600	0	11,702,600	0
FS997629-03	11,633,700	11,633,700	0	11,633,700	0
FS997629-04	12,066,800	12,066,800	0	12,066,800	0
FS997629-05	12,041,273	12,041,273	0	12,041,273	0
FS997629-06	15,978,200	15,878,200	0	15,878,200	0
FS997629-07*	12,578,000	12,578,000	0	12,578,000	0
FS997629-08*	10,716,000	10,616,000	0	10,616,000	0
FS997629-09*	10,616,000	9,170,307	1,445,693	10,616,000	0
FS997629-10*	21,434,000	10,019,183	11,414,817	21,434,000	0
2F977082-01	37,862,000	37,862,000	0	37,862,000	0
FS997629-11	18,204,000	0	16,681,244	16,681,244	1,448,359
FS997629-12	17,348,000	0	2,935,448	2,935,448	14,412,552
FS997629-13	16,277,000	0	0	0	16,277,000
FS997629-14	17,855,000	0	0	0	17,855,000
	\$288,679,331	\$205,933,377	\$32,477,202	\$238,410,579	\$49,992,911

*These grants were amended during state fiscal year 2013.

As of September 30, 2014, state matching contributions were as follows:

	June 30, 2013	2014 Contribution	Sept 30, 2014
State Appropriations	\$15,504,549	\$0	\$15,504,549
State Match Bonds (sold by EIERA)	24,447,276	0	24,447,276
Rural Water Grants	7,085,241	0	7,085,241
Total State Match	\$47,037,066	\$0	\$47,037,066

The state match bonds sold by EIERA are being repaid with Drinking Water SRF interest earnings and are not contributions to fund equity. The state match provided by the Rural Water Grants are not contributions to fund equity as these grants were funded by proceeds from Missouri State Bond Sales prior to 2012. EPA had given the Department authorization to utilize these grants towards state match.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements – Unaudited**

NOTE 7: Set-Aside Costs

The Federal Safe Drinking Water Act allows states to reserve, or “set-aside” up to 31 percent of the capitalization grant to implement and maintain activities to help public water systems provide safe drinking water to the public. The Safe Drinking Water Act establishes four categories of set-asides and sets a maximum amount for each. In state fiscal year 2014, the Department reserved 31 percent of the federal fiscal year 2013 grant for set-aside activities.

Set-Aside Capitalization Grant Balances

The following capitalization grants have balances available to draw for set-aside activities which is detailed by set-aside category of available funding.

Grant	Program Administration	Technical Assistance	State Program Management	Capacity Development	Total Funds Available
2012	\$212,724	\$120,425	\$929,395	\$924,889	\$2,187,433
2013	651,080	325,540	1,627,700	2,441,550	5,045,870
2014	714,200	357,100	1,785,500	2,678,250	5,535,050
Total	\$1,578,004	\$803,065	\$4,342,595	\$6,044,689	\$12,768,353

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements – Unaudited**

NOTE 7: Set-Aside Costs - continued

Set-Aside Federal Draws

The table below identifies the total amounts drawn from each of the capitalization grants for set-aside activities as of September 30, 2014:

Grant	Program Administration	Technical Assistance	State Program Management	Source Water Protection and Capacity Development	Total Set-Aside
1997	\$874,304	\$436,780	\$1,435,760	\$1,834,798	\$4,581,642
1998	382,996	191,227	956,241	0	1,530,464
1999	401,416	200,704	1,003,035	0	1,605,155
2000	350,092	207,835	1,043,573	0	1,601,499
2001	414,990	209,110	1,043,225	0	1,667,325
2002	133,446	110,994	826,088	443,559	1,514,087
2003	454,980	227,490	1,137,450	568,725	2,388,645
2004	482,672	241,336	1,206,680	603,340	2,534,028
2005	481,652	240,777	1,204,130	1,204,151	3,130,711
2006	539,128	319,564	1,297,820	1,397,820	3,554,332
2007	639,120	319,560	1,597,800	798,900	3,355,380
2008	632,640	316,320	1,581,600	1,581,600	4,112,160
2009	632,640	316,320	1,581,600	1,581,600	4,112,160
ARRA	700,000	757,240	0	0	1,457,240
2010	1,049,360	524,680	2,623,400	3,935,100	8,132,540
2011	728,160	364,080	1,820,400	2,730,600	5,643,240
2012	360,024	161,214	668,035	1,433,203	2,622,476
2013	0	0	0	0	0
2014	0	0	0	0	0
Total	\$9,257,620	\$5,145,231	\$21,026,837	\$18,113,396	\$53,543,084

NOTE 8: Defined Benefit Pension Plan

Plan Description

The State of Missouri participates in the Missouri State Employees' Plan, which is a single-employer defined benefit pension plan administered by the Missouri State Employees' Retirement System, known as MOSERS, as provided by the Revised Statutes of Missouri Sections 104.010 and 104.312 to 104.1215. MOSERS provides retirement, death and disability benefits to its members. Missouri law establishes and amends benefit

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements – Unaudited**

NOTE 8: Defined Benefit Pension Plan - continued

provisions. MOSERS issues a publicly available financial report that includes financial statements and required supplementary information.

Those reports may be obtained by writing to Missouri State Employees' Retirement System at P.O. Box 209, 907 Wildwood, Jefferson City, Missouri 65102-0209.

Funding Policy

The State of Missouri is obligated by state law to make all required contributions to the Missouri State Employees' Plan. The actuarially determined contributions are expressed as a level percentage of covered payroll. The actuarially determined contributions rate for the Missouri State Employees' Plan was 16.98 percent for the year beginning July 1, 2013 and is currently 16.97 percent for the year beginning July 1, 2014. Actual contribution rates are the same as the actuarially determined rates. No employee contributions are required. The amount of retirement contributions paid by the State of Missouri and allocated to expense of the program was \$407,028 for the year ended September 30, 2014.

NOTE 9: Contingencies

The program is exposed to various risks of loss related to torts, theft of assets, errors or omissions, injuries to state employees while performing program business or acts of God. The program maintains insurance through the State of Missouri for all risks of loss, which is included in the indirect costs allocated to the program. There have not been any claims against the program since its inception in 1997.

Exhibit 7

**Drinking Water SRF Source and Distribution of Funds
Fund 0568**

For Reporting Period July 1, 2013 through September 30, 2014

<u>2014 Reporting Period Income</u>	Program Income Earned During Grant Period	Program Income Earned After Grant Period	Non-Program Income
FY 14 Income	\$ 72,264	\$ 1,194,007	\$ 196,800
FY 14 Interest Earnings	\$ 28,769	\$ 27,296	\$ 3,861
Subtotal	\$ 101,033	\$ 1,221,305	\$ 200,661
 State Fiscal Year Expenses			
FY14 Personnel Services	\$ -	\$ -	\$ -
FY14 Fringe	\$ -	\$ -	\$ -
FY14 Equipment & Expenses	\$ -	\$ -	\$ -
FY14 PSD Expenditures	\$ -	\$ -	\$ -
FY14 DNR Transfers	\$ -	\$ -	\$ -
FY14 ITSD Transfers	\$ -	\$ -	\$ -
FY14 HB 13 Transfers	\$ -	\$ -	\$ -
FY14 OA Cost Allocation	\$ -	\$ -	\$ -
FY14 State Owned Expenditures	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -
Subtotal	\$ 101,033	\$ 1,221,305	\$ 200,661



Water Protection Program - Financial Assistance Center

PO Box 176 Jefferson City, MO 65102-0176

800-361-4827 www.dnr.mo.gov